BUSINESS WATCH

Sales for Middle Atlantic states expected to rise 14 percent

(Continued from page 18)

Manufacturing in the state lagged the recovery, but the drop in the value of the dollar has brought a rebound.

While unemployment rates remain between 6 percent and 7 percent in these areas, employment is accelerating, boosting the demand for housing and building materials this year and next.

Employment in Buffalo is up 2.1 percent from a year ago; Elmira, 5.2 percent; Syracuse, 2.4 percent; and Utica, 1.4 percent.

Highway paves way for N.J.

New Jersey enjoyed the most rapid rise in the region. Employment is still up 4 percent from a year ago, reducing the unemployment rate to 4.2 percent.

Due to the way that unemployment rates are calculated, it is almost impossible to go below 3 percent. In 1986, resales increased 7 percent.

While many suburban residential areas have benefited from the New York City growth in employment, the major development for New Jersey has been the surge in activity along the Route 1 corridor from New Brunswick to Trenton.

Firms in financial services and computers are moving to less-congested areas with lower rentals, labor costs, taxes and utilities.

Many analysts would expand the definition of the Route 1 path to include the entire length of the New Jersey Turnpike—with appendixes for Routes 80 and 287—and the entire Garden State Parkway.

With the surge in demand, existing home prices have soared. Higher-priced homes are more likely to undergo major additions and alteration work.

Pa. recoups after weakness

Pennsylvania presents an intriguing picture for the region. Employment expansion has been anemic compared to New York and New Jersey, but population and labor force growth was so weak in Pennsylvania that unemployment declined by 5.4 percent.

Since the second half of 1986, the unemployment rate in the state has been below the national average, the first time that it has sustained lower rates since 1971.

Resales heat up

Resales heated up, rising 23 percent versus a national average of 11 percent.

The strength that does exist in employment for the state is not in its traditional manufacturing sector that remains down, but in financial services and construction.

Philadelphia and, to a lesser degree, Pittsburgh, are expanding while large parts of the state, with economies based on manufacturing, remain weak.

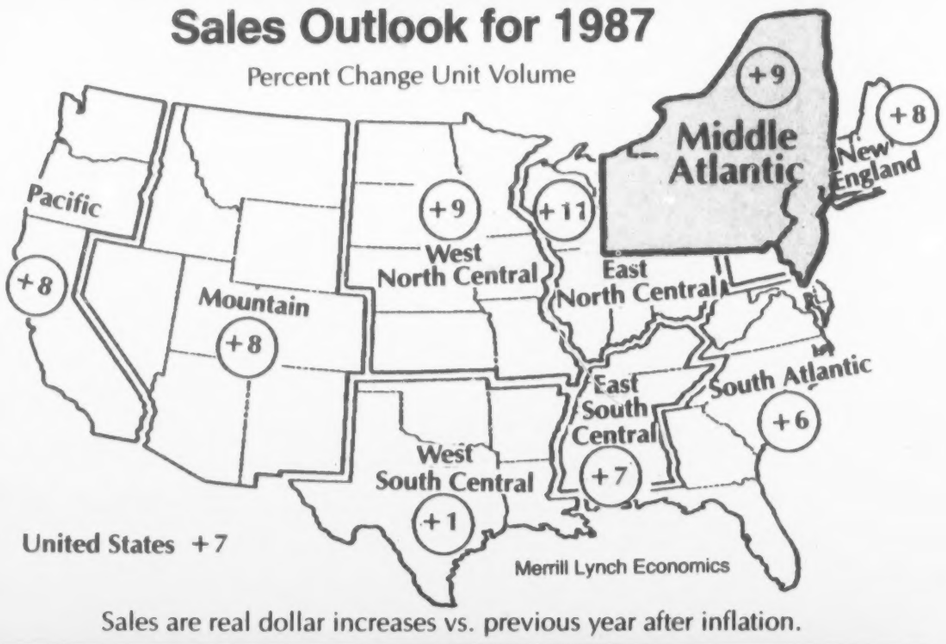
Construction employment in Philadelphia has grown on average 10.5 percent since 1982 as Penn's Landing is developed and the downtown area undergoes an office building boom.

But other types of employment and population are shifting to outlying counties such as Burlington, Chester and Bucks.

As the decline in the dollar makes domestically produced goods more competitive here and abroad, other areas of the state will expand.

Building material sales in the Middle Atlantic states are expected to increase 9 percent this year on the strength of strong employment, starts and resales.

While rural Pennsylvania and upstate New York should be slower than the rest of the region in 1987, the gap should narrow in 1988.



Sales are real dollar increases vs. previous year after inflation.

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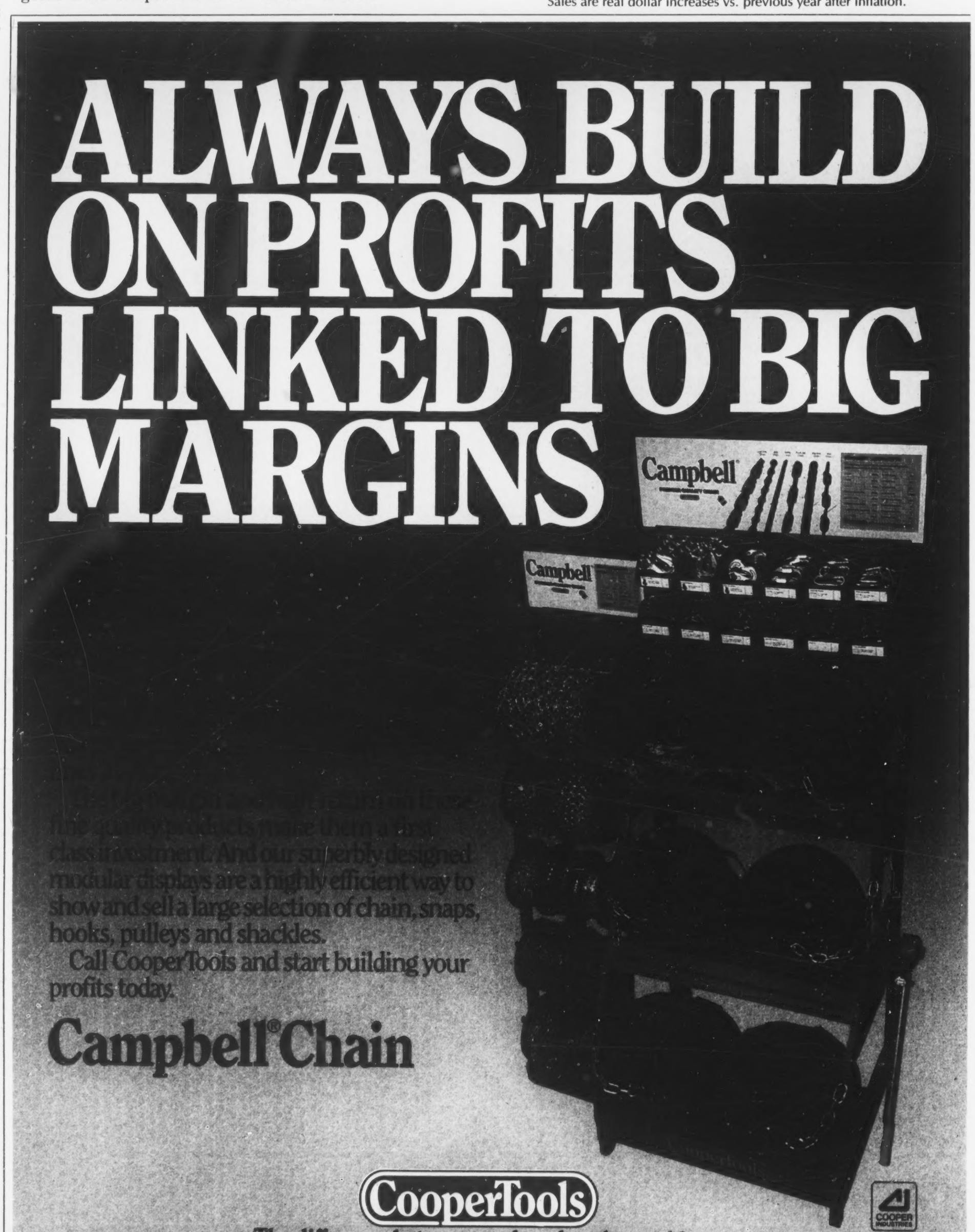

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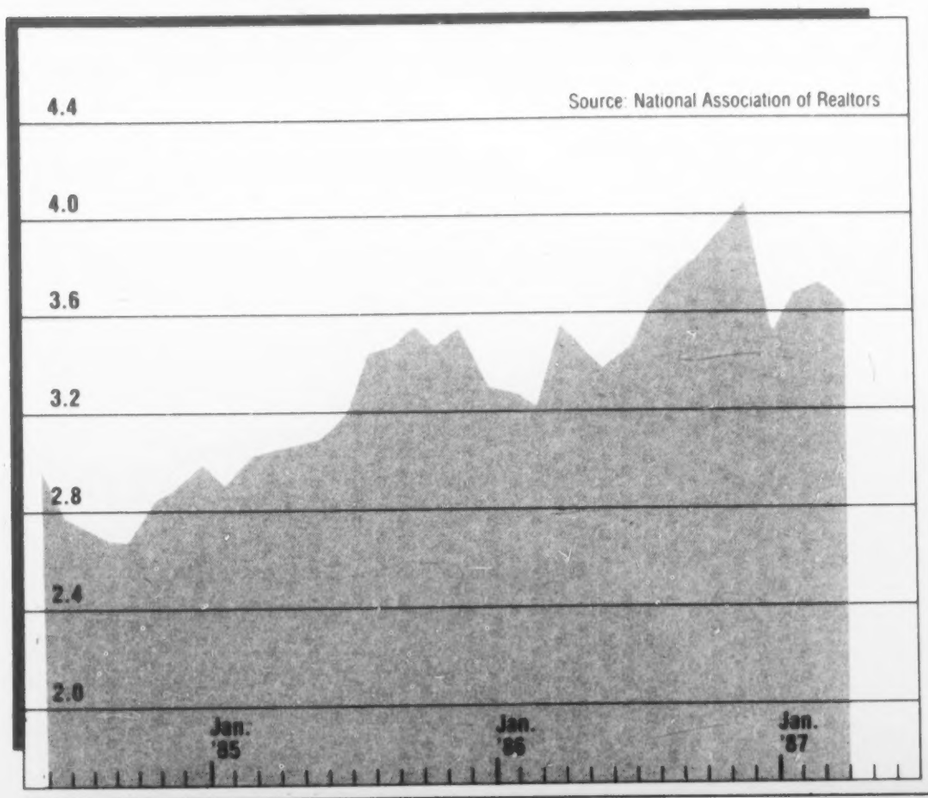
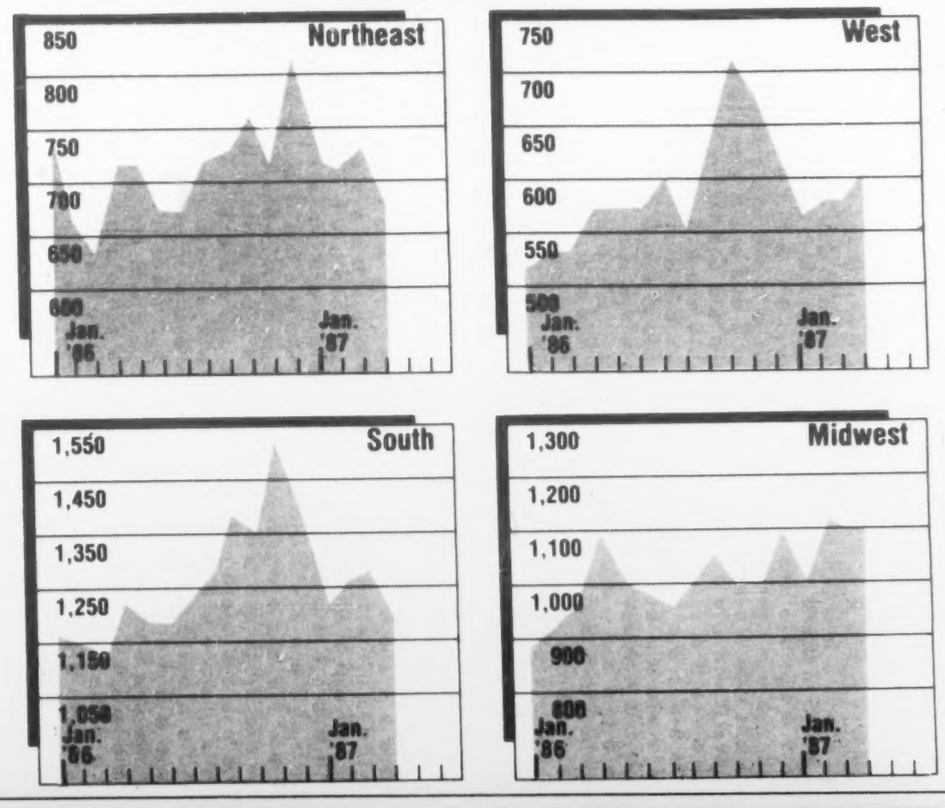
HOUSING WATCH

National existing single-family home sales
Seasonally adjusted annual rate (in millions of units)



Regional existing single-family home sales
Seasonally adjusted annual rate (in thousands of units)



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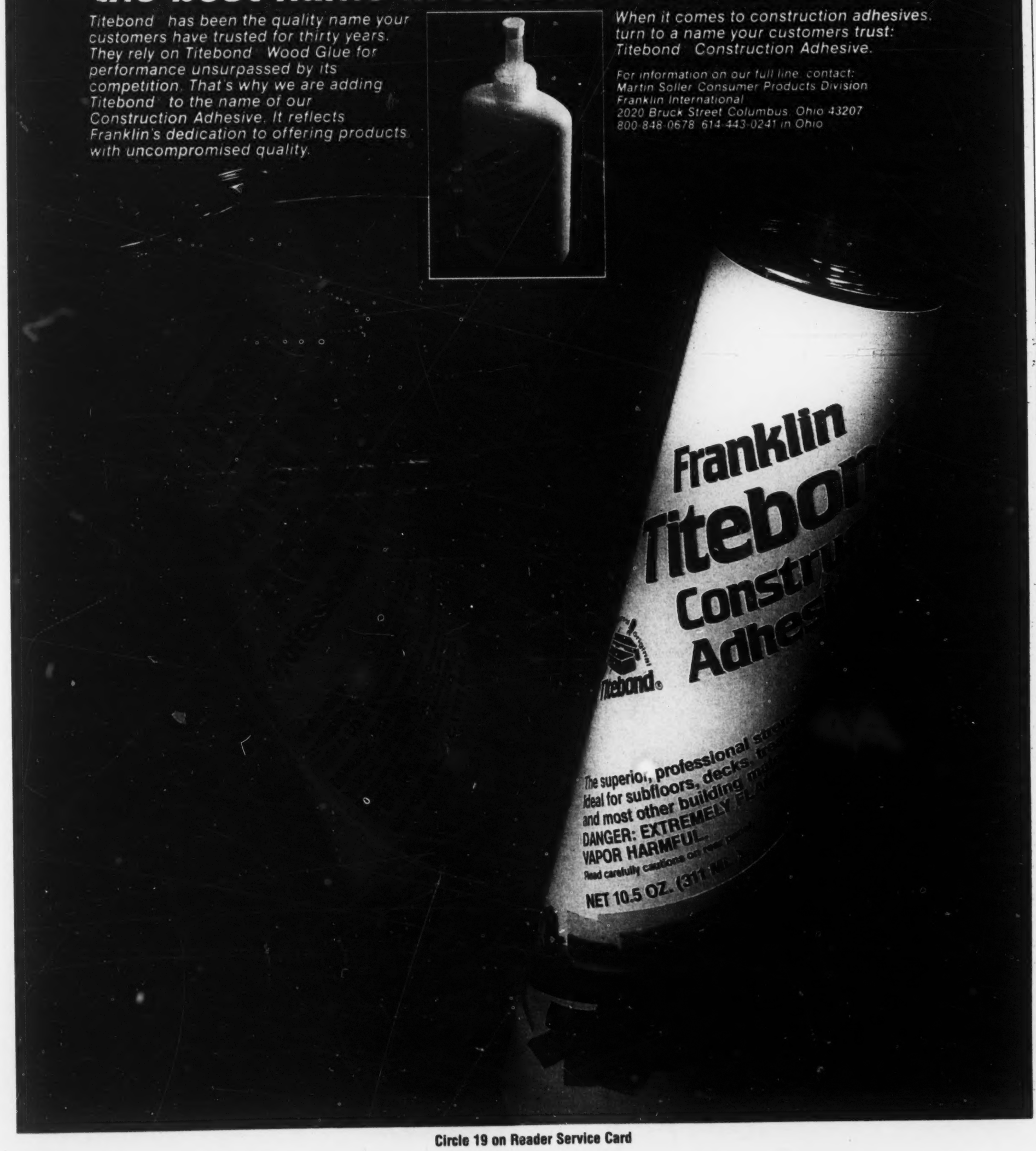

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High rates slow April home sales

NATIONAL REPORT — Rising mortgage rates slowed sales of existing single-family homes in April. Sales dipped one percent to a seasonally adjusted annual rate of 3.63 million units, according to the National Association of Realtors (NAR).

The number of homes sold during April increased four percent to 339,000 units. Last year, sales rose 21 percent to 336,000 units during March and April.

Long-term, fixed-rate mortgages rose to 9.14 percent in early April from 9.09 percent in early March, the Federal Home Loan Bank Board reported. Rates have risen steadily since then and now average 10.25 percent to 10.50 percent in most areas.

Median Sale Price
(in thousands of dollars)

	April[p]	March[r]	Feb.	Jan.
U.S.	$ 85.4	$ 85.6	$ 85.0	$ 82.1
Northeast	132.6	128.2	125.4	108.7
South	82.3	83.7	82.1	78.7
Midwest	66.8	67.6	67.1	65.2
West	102.3	101.9	104.0	100.3

[p]-preliminary [r]-revised
Source: National Association of Realtors

April's resale pace was mixed. The only increase came from the West, where sales rose five percent from March to 600,000 units, seasonally adjusted, five percent ahead of April 1986. Home prices rose by $400 in April to a median $102,300, six percent above last year.

Median home prices in the West were $132,600—26 percent ahead of April '86 prices. Resales fell nine percent to 670,000 units, down 4.5 percent from last April.

Sales dipped two percent in the South to 1.24 million units, three percent above its year-earlier pace. Home prices fell $1,400 to $82,300, five percent greater than April 1986.

The resale home pace held steady in the Midwest at 1.11 million units, up three percent from April 1986. Median home prices there fell $800 to $66,800.

Housing is still affordable: NAR

NATIONAL REPORT — Despite rising mortgage rates, housing remained affordable for much of the population in April.

The housing affordability index kept by the National Association of Realtors (NAR) stood at 110.9 in April, up from 110.7 in March.

The family earning the median income, $29,633, had 110.9 percent of the salary needed to buy a median-priced home—$85,400.

Buyers earning $40,000 could afford a $130,000 home. A family earning $50,000 could qualify for a home costing $162,500.

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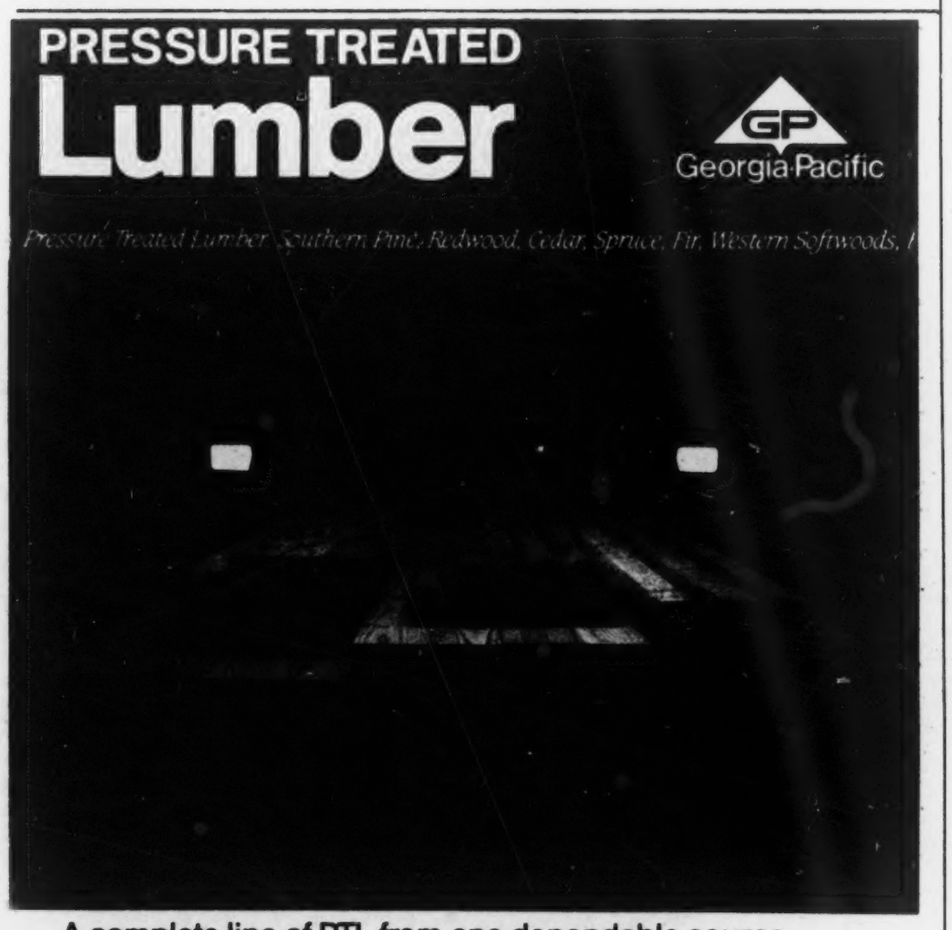

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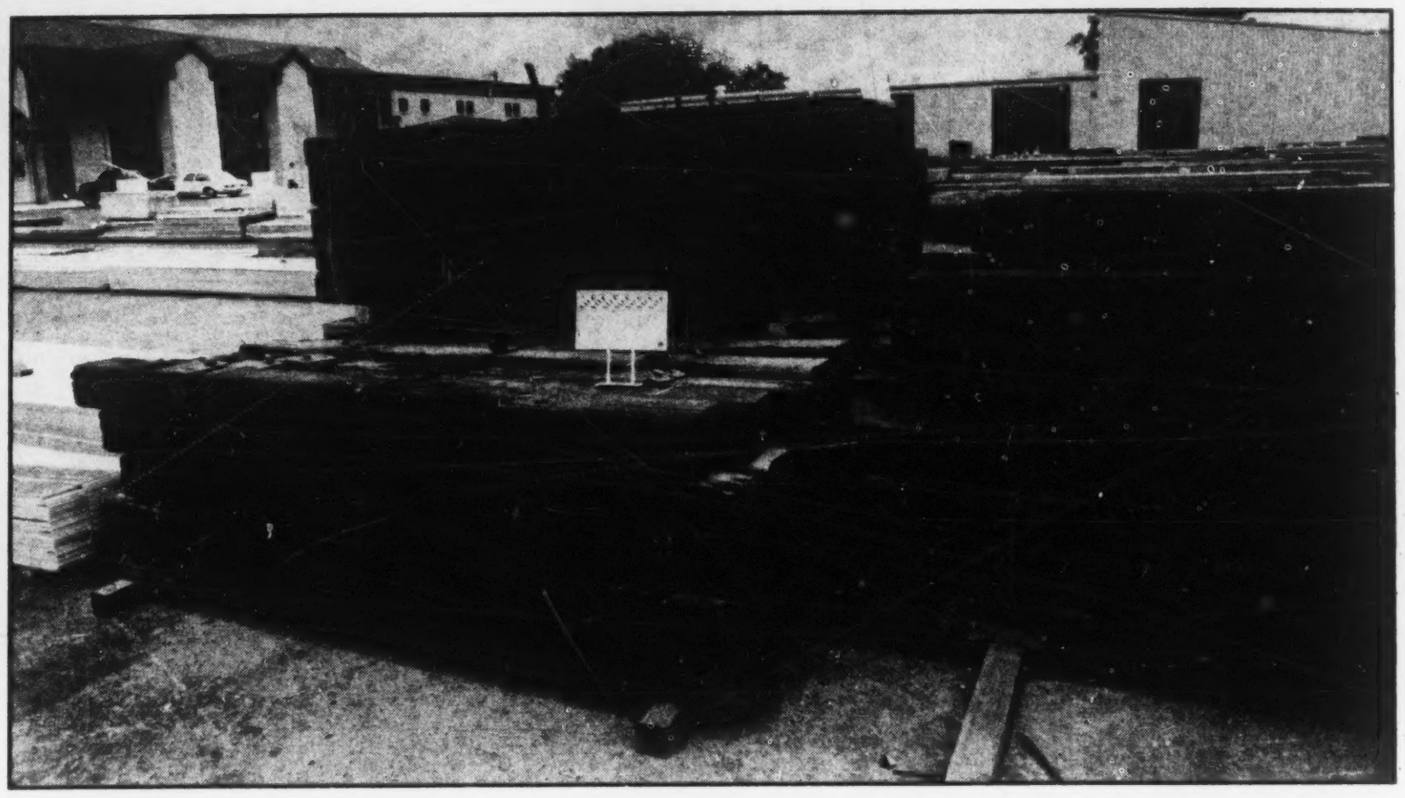
LUMBER REPORT



Railroad ties can translate into add-on sales when customers buy certain DIY projects. NHCN *photo*

Railroad ties are becoming a new track to DIY sales

By Milford Prewitt
NHCN staff editor

NATIONAL REPORT — They're heavy, dirty, ungainly, smelly, and worst of all, used. Yet some home centers have found them to be good for business.

They're railroad ties.

Cashing in on the budding consumer demand for outdoor landscaping projects, some lumberyard operators and home center chains have carved out an extra niche for themselves in the treated lumber category by selling used railroad ties.

At some companies, notably Furrow's and Stripling Blake in Austin, Texas, and Economy Building Materials in Denver, railroad ties are heavily promoted and given conspicuous space in their lumberyards.

While most retailers have been carrying railroad ties for years, lumber buyers said the product offers the opportunity for an immediate add-on sale whenever a customer commits to a decking or other treated lumber project.

"This is a DIY product pretty much," said Alec Beck, president of Stripling Blake. "There are a number of uses for them and I think consumers have seen them around long enough as retaining walls to come up with their own ideas."

Besides their application for retaining walls, railroad ties are typically used to trim flower beds and tree planters and as walkway borders. Because railroad ties are soaked in the preservative creosote, they can be used in direct contact with the ground.

More expensive than treated

But railroad ties—which are 8-foot-long 7x8s and 6x8s—appear to be for the well-heeled, discriminating DIYer. The used, darkened ties are retailed in various regions for between $9 and $14 a tie, nearly three times as much as a comparably sized, pressure-treated 6x8s or 6x6s.

Railroad ties may be the strangest products lumber buyers acquire for their companies. Unlike other lumber products which are bought from wholesalers and mills, used railroad ties can only be acquired from a peculiar breed of business: those that specialize in salvaging scrap from abandoned railroad lines.

Like the lumber industry, the used railroad tie business is intensely competitive, with companies dotting the nation and making aggressive bids whenever railroads announce they are closing down lines.

Reaps from railroad decline

Bob Wutzke, president of Wutzke Railroad Tie Co. in Denver, which, at 17-years old is one of the oldest railroad line salvage companies in Colorado, said his business prospers off of the misfortunes of other companies.

"Whenever we go to work it usually means that somebody on the other end of the line went out of business," Wutzke said. "It's really not the railroad that's going out of business, despite what some people think, but it's the companies that have railroad lines on their properties or in a town."

With thousands of miles of railroad lines and spurs in his company's territory and 2,800 to 3,200 ties per mile, Wutzke said business has been good and looks better.

Wutzke, whose company sells railroad ties to Economy Building Materials and others, said he got the idea to sell used ties to retailers in 1970 when a railroad executive told him in a casual conversation that the company was being besieged by people calling to buy railroad ties.

"They just handled them as nuisance calls," Wutzke said, "But I thought, if there were that many calls, then there must be a market."

As a result, Wutzke began bidding to remove not only the ties, but the steel railings and bridges. He said the steel has an aftermarket for rail reuse or can be melted down for other purposes.

"The key aspect about our industry is that the railroads have to remove abandoned lines pretty quickly," Wutzke explained. "As long as the lines are there, the railroads have to pay taxes on it whether it is used or not.

"Plus, from a liability standpoint, they risk suits every time someone is injured on them. So there's plenty of work around."

Chain sees strong demand

The age of the tie, its size and the shipping distance determine their price, Wutzke said. At the moment he said there are about nine price points for his products that range from $1.99 a tie to $13 a tie.

Theo Grasmick, lumber buyer for Economy Building Materials, said his company sells railroad ties that are considered "re-lay quality," which means that they could be reused on a rail line.

At $8 a tie, the products are featured in the company's tabs and enjoy strong demand, even though he believes demand for them was higher a few years ago, he said.

Grasmick noted that the company has been stocking railroad ties for seven to eight years with a typical consumer end-use apparently being terrace walls.

Economy Building Materials initially sold railroad ties only to the Denver Parks Department, Grasmick said, but the response from consumers convinced the company that the product should be marketed to homeowners.

"We've been doing pretty well with them," Grasmick said. "People see them as a kind of landscape timber, but they are pretty difficult to merchandise because there is no one grading system so different companies sell them for different prices."

He said the company sold Canadian railroad ties—with rounded edges—a few years ago and enjoyed heavy demand from shoppers.

"Those were very, very popular and now they are very hard to find," Grasmick said.

Perspectives

U.S. SUPPLIERS INCREASE PRODUCT ASSEMBLY IN MEXICO

Photo: Juarez, Mexico, McCulloch factory; photo courtesy of McCulloch.

By Brad Altman
NHCN staff editor

MEXICALI, Mexico — When Weiser Lock opened its first assembly factory in this Mexican border town on May 21, the event didn't go unnoticed by one of Weiser Lock's major competitors.

That's because rival Weslock has operated its own factory here for 15 years—literally next door in the same business park where Weiser Lock has situated its facility.

"We didn't know we had located right next door to the Weslock plant until we saw their trucks driving by," claimed Bob Pacelli, Weiser Lock's marketing director.

Another competitor, Schlage Lock, has had an assembly operation in Mexico for several years. Its main factory is in Tecate, where it assembles U.S.-made components.

Weiser Lock's recent factory debut here underscores how the changing dynamics of DIY product manufacturing is forcing aggressive competitors in the U.S. to establish "good neighbor policies," at least on foreign soil.

Companies that set up factories in Mexico are participating in the Mexican government's 22-year-old *maquiladora* (which roughly translates from the Spanish for "handwork assembly") program.

The number of *maquiladora* factories has expanded substantially since the start of the severe Mexican recession in 1982, when the peso was devalued, making U.S. investment in Mexico more attractive. There are now about 1,000 such factories, compared with 800 at the beginning of 1986.

Maquiladoras are currently the second largest source of foreign exchange earnings for Mexico, which improves its ability to repay debt obligation to U.S. banks. (The leading income producer in Mexico is oil—$9 billion; followed by *maquiladoras*, $1.7 billion; and tourism, $1.3 billion.)

Tim Bennett, deputy assistant U.S. trade representative, said *maquiladoras* have a positive impact on the U.S. economy. American companies ship to the *maquiladoras* more than $3 billion worth of components for assembly annually which, according to the U.S. Commerce Department, represents about 75,000 U.S. jobs.

Speaking at a Los Angeles conference sponsored by the Institute for International Research, Bennett elaborated, "*Maquiladora* operations provide additional economic benefits to U.S. border cities, as an estimated 40 percent to 60 percent of the Mexican worker's wages are spent in the U.S."

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'Perks' help attract Mexican labor to maquiladoras 28

U.S. presence spurs economic hope for Mexico's future 32

Perspectives

'Perks' help attract labor to maquiladoras

By an NHCN staff editor

TIJUANA, Mexico — At Maderas Exoticas, an assembly factory here that makes high-quality bedroom furniture and waterbed frames for Gardena, Calif.-based Water & Wood Corp., the employee restrooms have showers.

"Some employees live in homes that have no running water or electricity," explained John Sartori, a Newport Beach consultant who helps U.S. companies establish manufacturing plants in Mexico.

At lunchtime, the meals in most cafeterias operated by U.S. firms participating in the *maquiladora* program are subsidized, with employees paying about 350 pesos for food that costs the company 900 pesos. (About 1,240 pesos are worth one U.S. dollar.)

Lunchbreaks are only 30 minutes long and the Mexican worker is expected to work a 48 ½-hour week. Workers typically earn less than $1 an hour.

Free buses and basketball courts

In Mexico, the fringe benefits aren't great, but they are sufficient to attract a labor force used to a lower standard of living than is found in the U.S. A basketball court and air conditioning are two examples of such minimal "perks."

Kenmex, a factory on the outskirts of Tijuana that makes hospital equipment, owns four buses and provides free transportation for its 1,000 employees from downtown Tijuana. Most employees walk, however, and it is unusual to find anyone except top management driving a car to work.

The state-of-the-art factories where Tijuana's *maquiladora* program is flourishing contrast sharply with the surrounding city.

On one recent day, a man was tending to a flock of goats in a field across the street from an industrial park. Raw sewage ran down a newly paved street, and people of all ages hawked chewing gun and cheap jewelry in the tourist-oriented areas.

For newcomers to Mexico, the scenes provoke a culture shock.

Escape from poverty sought

The contrasts underscore the uniqueness of doing business in Mexico. Tijuana is part of a foreign country only a half-hour drive south of San Diego, the United States' seventh-largest city.

Growth of the Maquiladora Industry in Mexico

End of	Plants	Employees
1966	12	3,000
1970	120	20,000
1975	454	67,000
1980	620	124,000
1981	605	130,000
1982	588	122,000
1983	629	173,000
1984	722	202,000
1985	785	218,000
1986	800+	300,000+

Source: Committee for Production Sharing, Washington; *NHCN* chart

Tijuana, Mexicali, Juarez and other border cities traditionally have been a magnet for those Mexicans seeking a better life in the U.S. Now, rather than cross the border illegally, some Mexicans are choosing to work in the *maquiladoras*.

"It used to be that visiting Americans expected to see men wearing sombreros," said Tony Villanueva, a licensed customs broker based in Chula Vista, Calif. "Now, the label, 'Made in Mexico' has a certain cachet."

Sartori, a former Kwikset executive and now president of Sarco International, a consulting firm, said a major challenge to conducting business in Mexico is crossing the border itself.

Tijuana, for example, has only 28 border-crossing gates and travelers are subject to crossing delays which lengthen or shorten with "every blip in U.S.-Mexican relations—you feel it immediately here," Sartori said.

Another gate was constructed just east of Tijuana, at Otay Mesa, near the major *maquiladora* industrial park here, and that has reduced waiting times.

Despite the border-crossing problem, *maquiladoras* are enjoying robust health and are here to stay, Sartori and other experts believe.

Bribes no longer *sine que non*

With a population of 78 million in Mexico, of which 16 million residents are employed, approximately 250,000 to 300,000 persons work in the maquiladora industry, Sartori estimated.

Jose Manuel Martinez, in charge of the maquiladora industry for the federal government of Mexico, said, "The legal framework of the *maquiladora* industry in Mexico is not changing and will not change in the next few years."

Mexican officials are trying to deflate long standing negative publicity about corruption in Mexico and the need to pay bribes—known as *mordida* or "the bite"—in order to get favors done.

The *maquiladora* operators claim that paying *mordida* is not necessary or required. "It is a mistake because once paid, it is difficult to stop," said Gordon X. Reed, vp of North & Donahoe, La Jolla, Calif., a consulting group.

Another unique aspect of the business environment in Mexico is that females comprise about two-thirds of the *maquiladora* workforce, although men are increasingly being attracted to the jobs.

"Our company has a policy of hiring male and female applicants equally, but there is a much higher percentage of females who apply, so that is a higher percentage of our workforce," said Anne Drake, public relations manager for the residential division of Honeywell, which recently completed construction on a new plant in Tijuana, complete with cafeteria and training rooms.

Cultural understanding a must

"There is high unemployment, but along the border there is a real labor shortage," Drake said. "Many men work for a month or two and then go somewhere else."

Consultant Reed said he established a *maquiladora* several years ago and quickly discovered the importance of understanding cultural differences.

"As a 'Gringo,' I had to be willing to unbend and mix with all levels, not just the Mexican managers, at functions such as the Halloween costume party.

"At Halloween, I wore a Kermit the Frog outfit and it really impressed the Mexicans because it helped to develop a certain comfort level which was needed before they gave me their full trust and support."

Cheap utilities

Mexico has other advantages besides labor savings for *maquiladora* operators. In Tijuana, for instance, it costs about 3½ cents a kilowatt hour for electricity versus 13 cents in San Diego. Energy costs are similarly low in other Mexican cities. Water, natural gas, building leases, and construction costs are cheaper in Mexico than the U.S. also.

The median age in Mexico is 17 years compared with 30 years in the U.S. and 40 years in Japan.

East moves West in effort to stall strong yen

By an NHCN staff editor

TIJUANA, Mexico — The assembly line at a new, Japanese-owned Sanyo plant here is rolling out thousands of compact refrigerators, many of them with the "Kenmore" nameplate stamped on their doors and destined to be sold at Sears stores.

The 275,000-square-foot Sanyo facility is located in a blossoming industrial park on Mexico's Otay Mesa, just a mile from the international border and 30 minutes from downtown San Diego.

Sanyo, which flies a company flag next to Mexico's flag on adjoining poles at the plant entrance, is one of numerous Japanese firms building factories here.

Sanyo's plant in Tijuana, Mexico, manufactures refrigerators. NHCN photo

Others open plants

Others that have opened plants, or are expected to, include Hitachi, Tomita Electric Corp., Sony, Matsushita, Sanoh Manufacturing Corp. and Tocabi America Corp. These companies are manufacturing products which include such home center-related items oscilating fans and cabinets.

Sanyo's operation illustrates the "twin-plant" concept. It also has built a 350,000-sq.-ft. distribution center just across the U.S. border to support its Mexican factory. Until last year, it made its compact refrigerators in San Diego.

Joseph Francis, executive director of the San Diego-Imperial Counties Labor Council, said Sanyo is not the only Asian country to express interest in Mexico. "Other offshore interests are relocating to Mexico. South Korea is beginning to join, we expect Taiwan, and, ultimately, West Germany."

The lure of Mexico is clear. "They have immediate access to the largest consumer market in the world," said Francis.

Lure of Mexico is clear

"The Japanese are losing competitiveness in the U.S. market because of the strong yen," said Steven A. Hess, vp and senior international economist at First Interstate Bancorp in Los Angeles. "One way for them to maintain their market share is to do some assembly in northern Mexico under the very attractive exchange rate that exists there."

Interestingly, the United States is not opposed to the increasing Japanese investment in Mexico, said Tim Bennett, deputy assistant U.S. trade representative for Mexico.

"The United States wants Japan to aid debtor nations," Bennett explained. "Some of the items produced at Japan *maquiladora* operations—auto parts, consumer electronics—would be imported by the U.S. from Japanese producers regardless of where the items were produced.

"Thus," Bennett continued, "it actually benefits the United States with the increased possibility that Japan would use U.S. components in the assembly process, a possibility which wouldn't exist if production was in Japan or more distant locations."

The impression that the Japanese have a united front in their move into Mexico is not an accurate one, according to local observers. In fact, the Japanese companies are extremely competitive and prefer not to have their plants located too close to each other.

Beatrix "Bebe" F. Sanders, a Tijuana businesswoman, showing a visitor through Tijuana, pointed to an undeveloped mesa a mile from the Sanyo plant and said, "The Japanese are already reserving land there. They look ahead four or five years."

U.S. SUPPLIERS INCREASE PRODUCT ASSEMBLY IN MEXICO

(Continued from page 27)

(Mexico for many years was the United State's third largest trading partner behind Canada and Japan. It was surpassed last year by West Germany.)

In Mexicali, Weiser Lock is using local laborers to handle its labor-intensive, hand-crafted specialty finishing work.

"We're not doing any manufacturing there and we're still doing our automated finishing" at Weiser Lock's 750,000-square-foot plant in Huntington Beach, Calif., said Pacelli.

"We just saw Mexico as an alternative to the high labor rates in the states," he added.

Increasingly, manufacturers of locksets and a range of other products sold in home centers are discovering that it makes shrewd business sense to set up operations in Mexico, where there is an availability of cheap labor along the 1,900-mile international border.

The scope of DIY industry manufacturing plants in Mexico is difficult to determine, in part because there is a stigma attached to doing business in Mexico and some manufacturers are worried that their "offshore" involvement could be perceived as anti-American.

Maquiladoras are "totally negative for the nation as a whole," said Joseph Francis, executive director of the San Diego-Imperial Counties Labor Council. "We believe it is exploitation of cheap labor."

Indeed, American labor unions argue that companies which establish offshore manufacturing facilities are denying jobs to U.S. workers.

But the Mexican factories can save U.S. jobs, too.

Officials with Honeywell's residential division were planning to shut down a factory in Gardena, Calif., four years ago, but instead they opened a "twin plant" in Tijuana that provided cost-savings in the assembly process.

This allowed Honeywell to keep its Gardena employees on the payroll.

Honeywell's 70,000-square-foot Tijuana facility, which employs about 400 workers, "started as an experiment and it worked beautifully," said Honeywell residential division spokeswoman Anne Drake. "We were running at a loss [in Gardena] until we started this program. This allowed us to stay in the market and keep those jobs in Gardena."

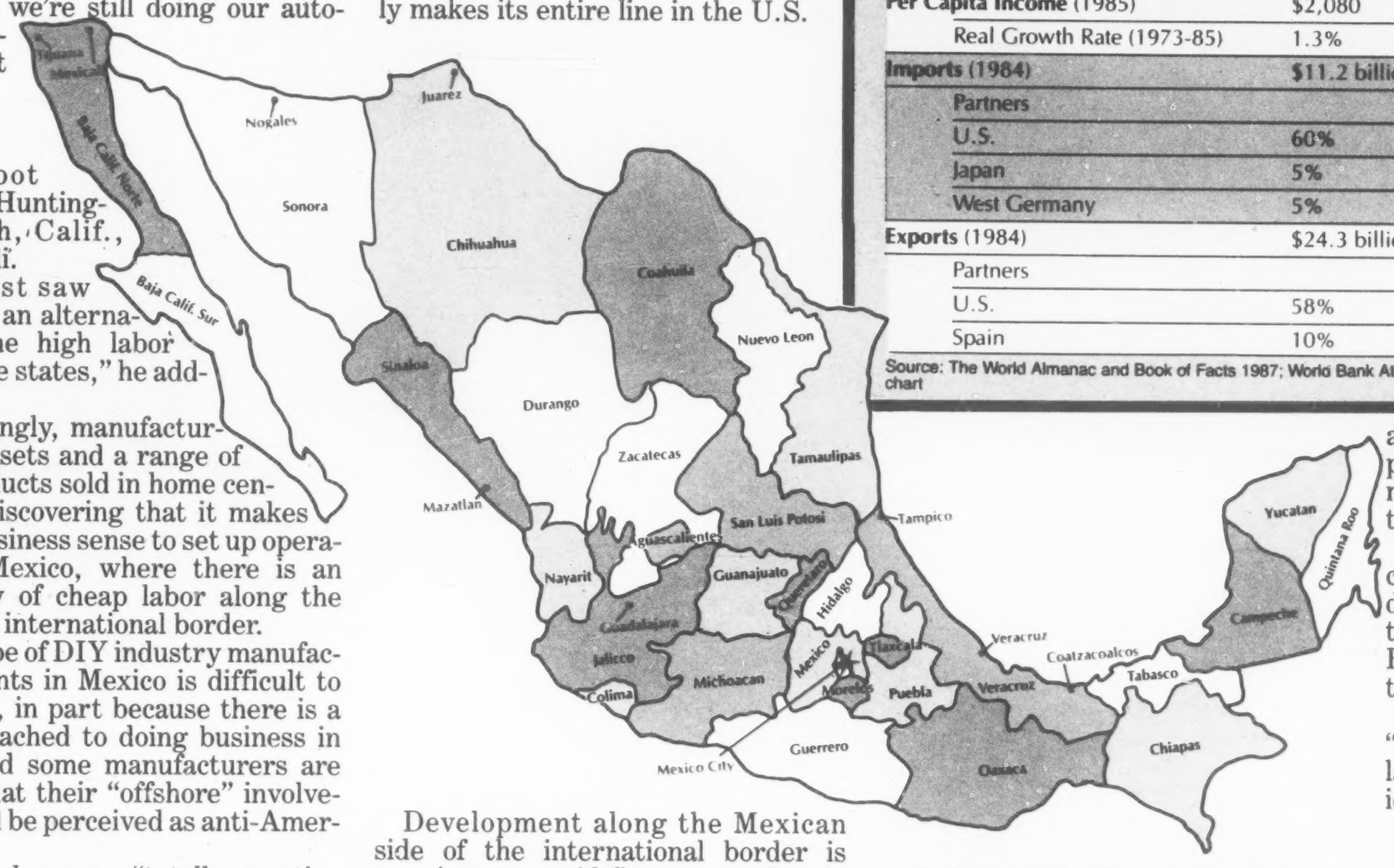
Francis and other labor leaders dispute the argument that American companies would be forced to close U.S. production lines if lower-cost assembly were not available in Mexico.

"That's garbage," said Francis. "If, in fact, we accept this idea that the only way to compete with cheap labor in the Orient is to use cheap labor, then we are dead."

With success stories like the Minneapolis-based Honeywell's making the rounds, however, companies that espouse "Buy American" attitudes are eyeing Mexico with newfound envy and, for some, trepidation.

A spicier 'Buy American' pitch

"Don't mention that we were here," said a Midwest power tool manufacturer attending a two-day conference on manufacturing in Mexico held in mid-May in Los Angeles. "Our employees would be kind of surprised that we're here" because the manufacturer currently makes its entire line in the U.S.



Development along the Mexican side of the international border is growing at a rapid-fire pace, and makers of DIY industry products are among the most aggressive participants in this expansion.

For the last year, McCulloch Corp. has been assembling consumer chain saws and string trimmers in Juarez, Mexico, across the border from El Paso, Texas.

Robert Senn, president of McCulloch, said that the company's year-old assembly operation in Juarez maintains "production rates actually higher than we're experiencing in the U.S., and the quality is equal." McCulloch operates a 500,000-square-foot factory in Lake Havasu, Ariz.

McCulloch's 20,000-square-foot Juarez factory, with 200 employees, is located about four miles from the border where, in El Paso, McCulloch operates a distribution center. The company is already planning to expand the Juarez facility.

Lenient work standards attractive

Commodore Products makes vanities in Tijuana, south of San Diego, out of four buildings employing 158 persons. The bathroom vanity maker is adding another 100 employees this summer, underscoring the success of the program which was launched in May 1984 by Commodore founder Larry Pallitz.

(Pallitz is now buying a faucet import business which will be based in Los Angeles' San Fernando Valley. He said he is scouting his Mexican sources for additional product lines.)

Commodore, acquired by Torrance, Calif.-based PermaBilt earlier this year, originally went to Mexico for "two main reasons," said Pallitz. "The environmental laws in California for emissions and in Mexico are different. Number two: labor cost savings."

Pacelli, Weiser Lock's marketing director, also acknowledges an incentive in moving into Mexico is the less-stringent air standard requirements in Mexico compared with regulations governing Weiser's facility in Huntington Beach, Calif.

Establishing a 30-employee *maquiladora*, Pacelli believes, will actually help Weiser Lock increase its California labor force. "We see the *maquiladora* as giving us a competitive edge. It is a test and if it is successful we will be expanding it."

Jose Avila, international sales manager at Weslock, said that his company employs about 300 persons in Mexicali to assemble Weslock products, and "we are contemplating expanding it. We just expanded recently."

He describes the Mexicali facility as a "work-in-process operation" in which some lockset components are "semi-assembled. Everything comes back to the Los Angeles plant" for final assembly, he added.

Avila explained the rationalization for the Mexican operations: "We have competition from the Orient because locksets are a very low-cost commodity. There is no way we can compete pricewise unless we send the locksets to Mexico for assembly to reduce the cost of operation."

Tremendous wage savings

U.S. manufacturers believe doing business in Mexico is a sensible way for them to cut costs, so they can more effectively compete against foreign producers that have low-cost labor pools to draw from.

Generally, hourly salaries, including fringe benefits, run about 99 cents an hour in Mexico. "Annual savings of $14,000 to $20,000 in wages and fringe benefits per Mexican employee are routinely being achieved," said consultant Gordon X. Reed, vp of North and Donahoe, La Jolla, Calif.

Under the *maquiladora* program, the Mexican government allows U.S. companies to ship parts to Mexican assembly plants without paying duties.

The parts are assembled in Mexico and then reshipped to the United States. At the border, customs agents will assess duties on the products, but, for most product makers, the duties are not substantial.

More than four-fifths of the Mexican exports to the U.S. are assessed duties from zero to five percent of the product's value, according to Bennett, the U.S. trade representative (*see other story*).

Bennett said that 1986 was the "busiest period in bilateral trade relations" between the U.S. and Mexico since World War II.

Evolving technologically

While the U.S. International Trade Commission is examining imports and is expected to release a study this September, despite the rising mood of protectionism, Bennett doesn't expect to see any Congressional efforts to amend tariffs that would jeopardize the *maquiladora* program.

For most product manufacturers, the viability of setting up shop in Mexico is based on having a product that can be assembled at the bottom of the technological ladder.

"*Maquiladoras* are only good if the product is highly labor intensive, meaning that the cost of the product is 35 percent to 40 percent labor," said Pallitz. He said that when he headed Commodore, Commodore's "total cost of running a *maquiladora* was less than half my hourly labor rate in California."

Jose Martinez, in charge of the *maquiladora* program for the federal government of Mexico, said, "We think we have to change the simple assembly concept of the *maquiladora* industry and try to promote a more specialist program of production-sharing. We don't want to only be a country with competent assembly plants."

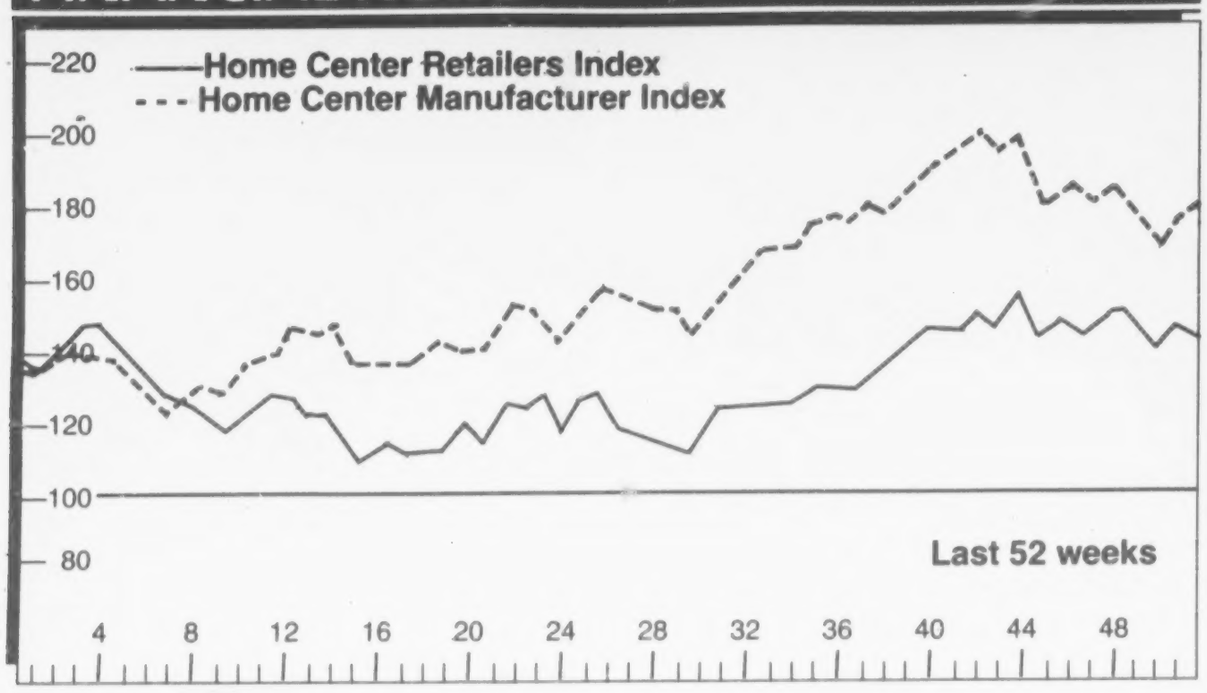
And some U.S. firms have, in fact, gone past the *maquiladora* program, like Stanley Works of New Britain, Conn., which operates a hand tool plant in Puebla, outside Mexico City. Peter Kilduff, corporate communications manager, said the products are made for regional use "in that hemisphere, not for U.S. export," he added. "Essentially, [Stanley's] U.S.-made product is distributed in the U.S."

Mexico at a glance

Population (1985)	78,820,000
Area	761,604 sq. miles
Labor Force	41% Agriculture 18% Manufacturing
GNP (1984)	$157 billion
(1985)	$163 billion
Real Growth Rate (1973-85)	4.2%
Per Capita Income (1985)	$2,080
Real Growth Rate (1973-85)	1.3%
Imports (1984)	$11.2 billion
Partners	
U.S.	60%
Japan	5%
West Germany	5%
Exports (1984)	$24.3 billion
Partners	
U.S.	58%
Spain	10%

Source: The World Almanac and Book of Facts 1987; World Bank Atlas; *NHCN* chart

FINANCIAL NEWS

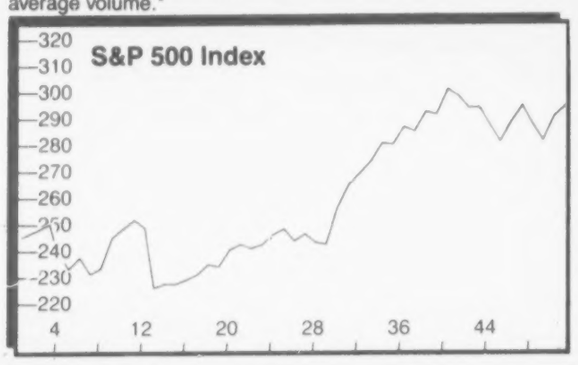


The home center retailer and manufacturer stock market indices are a measurement of the changes in aggregate market value compared to their value on Feb. 1, 1985, which has been set to equal 100 on the index. Aggregate market value is the sum of each stock's price multiplied by its number of shares outstanding, adjusted to eliminate the effects of additions or deletions of companies to the *NHCN* stock list.

MOST ACTIVE STOCKS

Company & Market	Total 2-Week Volume	Volume Trend Change	2-Week Price Change
6-12-87	(100)	%	%
Am Woodmark ..... M	1,497	456.4	.0
Mor-Flo Inds ..... M	380	237.8	1.0
Manville Cp ..... N	22,572	211.3	10.0
Am Consum Prods ..... M	550	191.8	.0
Pay n Pak ..... N	21,691	172.7	1.2
Hechinger B ..... M	1,815	168.3	5.7
INTERCO Inc ..... N	19,051	167.6	10.9
Wickes Cos ..... A	162,397	166.1	24.1
Moore Handley ..... M	520	162.0	- 13.9
Clarson Intl ..... M	1,360	132.2	3.0

The Volume Trend Change is the percent difference between the latest 2-week average volume and the previous 12-week average volume.*



PRICE MOVEMENT

Winners Company & Market	2-Weeks Ended 6-12	2-Week Price Change	Total 2-Week Volume
6-12-87	$	%	(100)
Wickes Cos ..... A	4.50	24.1	162,397
Pope & Talbot ..... N	23.13	19.4	2,817
Grossman's Inc ..... M	9.50	18.8	1,752
INTERCO Inc ..... N	44.50	10.9	19,051
Manville Cp ..... N	4.13	10.0	22,572
Stanline Inc ..... M	11.25	9.8	553
Zayre Corp ..... N	28.88	9.0	42,346
Norlek Inc ..... N	14.13	8.7	3,194
K mart Cp ..... N	43.00	7.7	64,298
Natl Hardgoods ..... M	7.50	7.1	303
Losers	$	%	(100)
Supermkts Gen ..... N	38.75	- 14.8	1,978
Moore Handley ..... M	7.75	- 13.9	520
Natl Lumber ..... M	5.25	- 6.7	306
Std Brd Prt ..... N	22.75	- 3.7	2,144
Wasman Ind ..... M	9.88	- 3.7	520
Lewis Palmer ..... M	8.88	- 2.7	806
Black & Decker ..... N	22.88	- 2.7	27,278
Sherwin-Wms ..... N	33.88	- 2.5	7,078
Lowe's Cos ..... N	26.63	- 2.3	11,168
Am Standard ..... N	41.50	- 2.1	4,087

National Home Center News — HOME CENTER MARKET SUMMARY

Company and Market	Stock Market: Price 2-Weeks Ended 6-12-87	2-Weeks Change Amt.	2-Weeks Change Pct.	2-Week Range High	2-Week Range Low	52-Week Range High	52-Week Range Low	Volume 2-Weeks Shares Traded Total	Volume 2-Weeks Shares Traded % Out	Volume 12-Week Avg. Vol. As % Out	Volume Trend Change	Financial Update: P/E Ratio	Indicated Divd. Rate Amt.	Indicated Divd. Rate Yld.	Latest Report New Report	Latest Report Period	Latest Report Date Ended	Latest Quarter Revenue Amt.	Latest Quarter Revenue Chg.	Latest Quarter Net Income Amt.	Latest Quarter Net Income Chg.	Latest Quarter E.P.S. Amt.	Latest Quarter E.P.S. Chg.	Year-to-Date Revenue Amt.	Year-to-Date Revenue Chg.	Year-to-Date Net Income Amt.	Year-to-Date Net Income Chg.	Year-to-Date E.P.S. Amt.	Year-to-Date E.P.S. Chg.
6-12-87	$	$	%	$	$	$	$	(100)	%	%	%	-	$	%	-	-	-	$Mil	%	$Mil	%	$	%	$Mil	%	$Mil	%	$	%
Retailers																													
Grossman's Inc ..... M	9.50	1.50	18.8	9.50	8.50	11.25	6.75	1,752	.88	.41	114.6	NE	.00	.0	.....	3 mos.	03-87	192.0	- 18.3	(6.5)	NE	(.32)	NE	192.0	- 18.3	(6.5)	NE	(.32)	NE
Hechinger A ..... M	22.75	1.25	5.8	23.00	22.00	23.50	16.00	7,750	7.09	3.24	118.8	NA	.16	.7	.....		00-00	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Hechinger B ..... M	23.00	1.25	5.7	23.25	21.75	23.75	16.25	1,815	1.10	.41	168.3	23.0	.06	.3	.....	3 mos.	04-87	164.8	20.4	7.6	55.1	.24	50.0	164.8	20.4	7.6	55.1	.24	50.0
Home Depot ..... N	35.50	2.00	6.0	36.13	33.38	36.13	15.88	16,736	6.02	3.40	77.1	31.4	.02	.1	.....	3 mos.	04-87	334.0	50.0	12.8	151.0	.43	115.0	334.0	50.0	12.8	151.0	.43	115.0
INTERCO Inc ..... N	44.50	4.38	10.9	44.63	39.88	47.63	36.63	19,051	6.69	2.50	167.6	14.2	1.60	3.6	.....	fiscal	02-87	651.5	11.7	31.0	.3	.99	2.1	2613.7	4.1	98.6	6.8	3.13	7.2
K mart Cp ..... N	43.00	3.06	7.7	43.38	39.34	45.34	28.84	64,298	3.22	1.89	70.4	14.0	1.16	2.7	NEW	3 mos.	04-87	5594.4	7.3	115.5	26.1	.57	21.3	5594.4	7.3	115.5	26.1	.57	21.3
Lowe's Cos ..... N	26.63	- .63	- 2.3	28.88	26.00	37.50	22.50	11,168	2.82	1.52	85.5	18.6	.44	1.7	.....	3 mos.	04-87	569.2	6.6	12.9	13.2	.33	6.5	569.2	6.6	12.9	13.2	.33	6.5
Natl Hardgoods ..... M	7.50	.50	7.1	8.00	7.25	10.00	6.72	303	2.46	1.32	86.4	10.7	.00a	.0	.....	fiscal	01-87	10.6	17.8	.5	400.0	.35	400.0	36.4	8.7	1.0	100.0	.70	94.4
Natl Lumber ..... M	5.25	- .38	- 6.7	5.75	5.25	7.50	4.00	306	.54	.46	17.4	NE	.00	.0	NEW	*	04-87	NC	NC	NC	NC	NC	NC	38.2	NC	.1	NC	.01	NC
Pay n Pak ..... N	21.00	.25	1.2	21.38	18.50	21.38	9.50	21,691	21.68	7.95	172.7	36.8	.40	1.9	.....	fiscal	02-87	82.9	13.1	.4	- 69.2	.04	- 69.2	398.1	19.7	5.7	- 30.5	.57	- 30.5
Payless Cash ..... N	21.50	.13	.6	22.00	20.50	27.00	15.88	10,352	2.99	1.80	66.1	17.2	.16	.7	.....	3 mos.	02-87	332.1	21.0	3.5	45.8	.10	42.9	332.1	21.0	3.5	45.8	.10	42.9
Scotty's Inc ..... N	13.38	- .25	- 1.8	14.00	13.13	18.00	12.00	1,296	.90	.67	34.3	18.1	.52	3.9	.....	9 mos.	03-87	134.6	4.8	3.0	- 26.8	.21	- 25.0	378.9	5.5	7.0	- 27.8	.48	- 28.4
Sears, Roebuck ..... N	51.25	.25	.5	51.63	49.75	56.00	39.00	81,375	2.18	1.27	71.7	13.3	2.00	3.9	.....	3 mos.	03-87	10480.0	11.6	287.9	47.4	.75	44.2	10480.0	11.6	287.9	47.4	.75	44.2
Std Brd Prt ..... N	22.75	- .88	- 3.7	23.75	22.13	27.00	19.38	2,144	1.91	1.60	19.4	17.1	.60	2.6	.....	fiscal	01-87	73.7	2.9	2.7	68.8	.24	71.4	326.6	- 3.4	15.0	- 5.1	1.33	- 5.0
Strober Organiz ..... M	12.25	- .13	- 1.0	12.50	11.50	15.25	10.50	860	1.43	.78	83.3	13.5	.00	.0	.....	3 mos.	03-87	21.3	- 1.8	1.0	- 16.7	.17	- 26.1	21.3	- 1.8	1.0	- 16.7	.17	- 26.1
Supermkts Gen ..... N	38.75	- 6.75	- 14.8	40.50	38.50	46.75	22.50	1,978	.51	7.08	- 92.8	25.3	.28	.7	NEW	3 mos.	04-87	1401.1	4.8	10.4	- 15.4	.27	- 20.6	1401.1	4.8	10.4	- 15.4	.27	- 20.6
Wickes Cos ..... A	4.50	.88	24.1	4.88	3.38	6.25	3.13	162,397	6.84	2.57	166.1	7.5	.00	.0	NEW	3 mos.	04-87	1540.4	54.8	82.7	426.8	.34	1600.0	1540.4	54.8	82.7	426.8	.34	1600.0
Wolohan Lumber ..... M	14.50	.25	1.8	15.00	14.00	15.00	7.50	2,033	3.47	2.02	71.8	13.2	.20	1.4	.....	3 mos.	03-87	41.0	45.9	1.0	NE	.18	NE	41.0	45.9	1.0	NE	.18	NE
Zayre Corp ..... N	28.88	2.38	9.0	29.13	26.13	43.88	20.75	42,346	7.18	3.25	120.9	17.7	.40	1.4	.....	3 mos.	04-87	1295.8	24.1	21.0	25.7	.36	28.6	1295.8	24.1	21.0	25.7	.36	28.6
Wholesalers																													
Hughes Supply ..... N	26.88	1.38	5.4	26.88	25.25	28.38	20.63	332	1.01	1.16	- 12.9	12.5	.40	1.5	NEW	3 mos.	04-87	95.8	9.6	2.0	25.0	.58	9.4	95.8	9.6	2.0	25.0	.58	9.4
Moore Handley ..... M	7.75	- 1.25	- 13.9	9.00	7.63	16.00	6.75	520	2.07	.79	162.0	17.2	.00	.0	.....	3 mos.	03-87	23.6	15.7	.3	.0	.14	- 30.0	23.8	15.7	.3	.0	.14	- 30.0
Lewis Palmer ..... M	8.88	- .25	- 2.7	9.00	8.88	9.88	7.25	806	2.02	2.08	- 2.9	22.2	.28	3.2	.....	3 mos.	04-87	52.9	56.5	.3	200.0	.09	350.0	52.9	56.5	.3	200.0	.09	350.0
Stanline Inc ..... M	11.25	1.00	9.8	11.25	9.75	12.75	7.84	553	3.26	2.78	17.3	10.6	.32b	2.8	NEW	6 mos.	04-87	17.3	23.8	.6	100.0	.30	42.9	31.3	14.2	.9	50.0	.50	38.9
Manufacturers																													
Am Consum Prods ..... M	10.75	.00	.0	10.75	10.50	11.00	8.50	550	2.86	.98	191.8	16.3	.00	.0	.....	3 mos.	03-87	9.2	16.5	.3	NC	.14	600.0	9.2	16.5	.3	NC	.14	600.0
Am Standard ..... N	41.50	- .88	- 2.1	44.25	40.50	51.88	36.00	4,087	1.23	.89	38.2	9.0	1.80	4.3	.....	3 mos.	03-87	779.7	15.3	21.6	- 57.0	.65	- 50.0	779.7	15.3	21.6	- 57.0	.65	- 50.0
Am Woodmark ..... M	14.38	.00	.0	14.63	14.00	17.13	10.00	1,497	2.17	.39	456.4	14.2	.00	.0	NEW	fiscal	04-87	29.3	20.1	1.5	25.0	.22	- 4.3	115.8	18.9	6.8	51.1	1.01	12.2
Armstrng Wrld ..... N	37.75	1.50	4.1	38.13	34.50	44.00	24.88	10,055	2.12	1.39	52.5	13.8	.90	2.4	.....	3 mos.	03-87	541.1	25.6	31.9	39.3	.67	39.6	541.1	25.6	31.9	39.3	.67	39.6
Black & Decker ..... N	22.88	- .63	- 2.7	23.50	22.13	23.88	14.50	27,278	4.70	3.07	53.1	38.1	.40	1.7	.....	6 mos.	03-87	436.7	5.7	9.2	475.0	.16	700.0	967.7	3.3	31.6	40.4	.54	25.6
Boise Cascade ..... N	71.75	2.88	4.2	73.00	68.25	86.88	51.50	10,216	3.51	2.54	38.2	18.9	1.90	2.6	.....	3 mos.	03-87	912.2	.4	40.2	60.8	1.31	57.8	912.2	.4	40.2	60.8	1.31	57.8
Certain-teed ..... N	41.50	2.00	5.1	41.50	39.13	41.88	24.63	815	.43	.74	- 41.9	12.8	1.00	2.4	.....	3 mos.	03-87	266.8	4.6	14.5	38.1	.77	37.5	266.8	4.6	14.5	38.1	.77	37.5
Champ Intl ..... N	36.38	1.75	5.1	36.50	34.13	43.50	22.50	51,286	5.45	2.84	91.9	14.7	.64	1.8	.....	3 mos.	03-87	1097.2	- 2.2	55.5	152.3	.59	195.0	1097.2	- 2.2	55.5	152.3	.59	195.0
Clarson Intl ..... M	17.25	.50	3.0	17.25	16.75	17.50	10.25	1,360	2.67	1.15	132.2	35.9	.00	.0	.....	6 mos.	03-87	18.9	33.1	.8	60.0	.17	30.8	35.2	23.9	1.0	11.1	.22	- 12.0
Cooper Indus ..... N	57.75	3.38	6.2	58.00	52.63	60.00	35.63	11,021	2.28	1.43	59.4	18.8	1.68	2.9	.....	3 mos.	03-87	800.5	- 7.6	27.6	7.0	.56	5.7	800.5	- 7.6	27.6	7.0	.56	5.7
DeSoto Inc ..... N	40.25	1.38	3.5	40.50	39.00	43.75	34.25	414	1.05	.78	34.6	47.4	1.40	3.5	.....	3 mos.	03-87	90.3	- 6.7	2.2	- 8.3	.54	5.9	90.3	- 6.7	2.2	- 8.3	.54	5.9
Emhart Corp ..... N	42.13	- .38	- .9	42.63	41.50	43.25	30.75	2,659	.86	.78	10.3	NE	1.40	3.3	.....	3 mos.	03-87	602.6	18.2	28.0	46.6	.90	32.4	602.6	18.2	28.0	46.6	.90	32.4
Georgia-Pacifc ..... N	44.88	2.63	6.2	44.88	40.75	52.75	29.00	48,976	4.56	2.67	70.8	14.2	1.00	2.2	.....	3 mos.	03-87	1855.0	15.6	80.0	166.7	.71	184.0	1855.0	15.6	80.0	166.7	.71	184.0
Insilco Corp ..... N	22.00	.13	.6	23.00	21.25	26.25	17.38	4,192	2.02	1.36	48.5	13.5	1.00b	4.5	.....	3 mos.	03-87	175.7	- 2.6	7.8	14.7	.37	15.6	175.7	- 2.6	7.8	14.7	.37	15.6
La Pacific ..... N	31.38	1.00	3.3	32.50	29.63	39.63	22.09	14,916	3.93	1.90	106.8	14.5	.80b	2.5	.....	3 mos.	03-87	422.9	31.1	16.3	1064.3	.43	975.0	422.9	31.1	16.3	1064.3	.43	975.0
Macmillan Bloedel ..... M	18.38	.00	.0	18.75	18.25	22.38	8.25	5,347	.53	1.19	- 55.5	NA	.42	NA	.....	3 mos.	03-87	719.4	17.3	60.4	106.8	.54	134.8	719.4	17.3	60.4	106.8	.54	134.8
Manville Cp ..... N	4.13	.38	10.0	4.25	3.50	4.25	1.63	22,572	9.40	3.02	211.3	1.1	.00	.0	.....	3 mos.	03-87	475.0	4.3	42.9	257.5	1.52	533.3	475.0	4.3	42.9	257.5	1.52	533.3
Masco Corp ..... N	36.63	1.25	3.5	36.75	33.38	40.88	23.50	17,049	1.32	.93	41.9	22.5	.36	1.0	.....	3 mos.	03-87	450.0	46.1	55.5	23.1	.42	20.0	450.0	46.1	55.5	23.1	.42	20.0
Mor-Flo Inds ..... M	12.13	.13	1.0	12.50	12.00	16.50	12.00	380	1.52	.45	237.8	41.8	.01	.1	.....	3 mos.	03-87	55.5	5.9	.6	- 14.3	.25	- 10.7	55.5	5.9	.6	- 14.3	.25	- 10.7
Newell Co ..... N	36.00	1.88	5.5	36.50	33.75	39.75	24.00	1,864	1.63	.74	120.3	16.1	.84	2.3	.....	3 mos.	03-87	101.3	7.2	6.1	48.8	.51	15.9	101.3	7.2	6.1	48.8	.51	15.9
Norlek Inc ..... N	14.13	1.13	8.7	14.25	12.88	17.88	11.75	3,194	1.96	1.05	86.7	6.5	.10	.7	.....	3 mos.	03-87	290.4	77.7	9.2	- 5.2	.57	- 40.0	290.4	77.7	9.2	- 5.2	.57	- 40.0
Owens Corn ..... N	25.25	- .13	- .5	25.38	24.13	32.38	8.88	13,837	3.69	3.36	9.8	NA	.00	.0	.....		00-00	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Ply-Gem ..... A	16.50	.38	2.3	16.75	15.38	18.13	10.00	1,603	2.00	1.00	100.0	17.4	.12	.7	.....	3 mos.	03-87	70.6	39.5	3.3	65.0	.29	11.5	70.6	39.5	3.3	65.0	.29	11.5
Pope & Talbot ..... N	23.13	3.75	19.4	23.63	19.13	23.63	8.88	2,817	2.34	2.28	2.6	12.0	.44	1.9	.....	3 mos.	03-87	100.3	35.4	6.7	NE	.55	NE	100.3	35.4	6.7	NE	.55	NE
Potlatch Cp ..... N	31.00	- .13	- .4	32.50	30.50	41.88	24.00	6,096	2.30	1.33	72.9	11.7	.84	2.7	.....	3 mos.	03-87	248.6	6.6	17.8	30.9	.63	31.3	248.6	6.6	17.8	30.9	.63	31.3
PPG Inds ..... N	41.25	2.38	6.1	41.25	38.38	49.75	29.63	23,318	1.95	.94	107.4	14.7	1.08	2.6	.....	3 mos.	03-87	1280.8	10.9	86.9	25.6	.73	23.7	1280.8	10.9	86.9	25.6	.73	23.7
Sherwin-Wms ..... N	33.88	- .88	- 2.5	34.88	32.88	38.50	22.75	7,078	1.57	.95	65.3	14.5	.56	1.7	.....	3 mos.	03-87	380.5	14.5	8.2	18.8	.18	20.0	380.5	14.5	8.2	18.8	.18	20.0
Stanley Works ..... N	33.13	1.50	4.7	33.25	30.75	35.38	23.19	3,737	.88	.88	29.4	17.0	.76	2.3	.....	3 mos.	03-87	416.8	28.8	19.2	30.6	.44	25.7	416.8	28.8	19.2	30.6	.44	25.7
Thos Inds ..... N	19.50	.00	.0	20.00	19.00	22.63	15.50	502	.51	.41	24.4	14.6	.66b	3.5	.....	3 mos.	03-87	78.7	11.2	3.8	18.8	.38	15.2	78.7	11.2	3.8	18.8	.38	15.2
Triangle Ind ..... N	34.00	1.25	3.8	34.13	32.38	39.75	21.13	4,457	2.62	2.36	11.0	12.7	.12	.4	.....	3 mos.	03-87	912.2	88.5	6.3	96.9	.20	100.0	912.2	88.5	6.3	96.9	.20	100.0
Union Camp ..... N	60.63	1.13	1.9	62.75	59.50	72.25	43.25	12,407	2.53	1.63	55.2	19.6	1.74	2.9	.....	3 mos.	03-87	537.0	8.5	44.2	100.9	.90	100.0	537.0	8.5	44.2	100.9	.90	100.0
USG Corp ..... N	35.75	- .63	- 1.7	37.50	35.00	46.50	31.00	9,352	1.76	1.06	67.9	8.2	1.12	3.1	.....	3 mos.	03-87	693.2	11.4	85.0	64.4	1.65	103.7	693.2	11.4	85.0	64.4	1.65	103.7
Waller, Jim ..... N	51.75	1.38	2.7	52.38	49.00	62.25	40.38	10,899	3.43	1.62	111.7	9.9	1.40	2.7	.....	6 mos.	02-87	513.5	- .7	28.0	53.0	.86	230.8	1109.4	2.8	65.9	31.8	2.03	43.0
Wasman Ind ..... M	9.88	- .38	- 3.7	10.25	9.88	13.25	6.34	520	.79	.69	14.5	21.0	.08	.8	.....	9 mos.	03-87	NC	NC	(.6)	- 100.0	(.10)	- 100.0	30.9	- 55.9	1.0	- 44.4	.15	- 74.1
Weyerhaeuser ..... N	52.13	3.13	6.4	53.63	49.00	60.00	30.50	33,715	2.49	1.85	34.6	22.2	1.30	2.5	.....	3 mos.	03-87	1617.3	23.8	101.9	103.8	.75	141.9	1617.3	23.8	101.9	103.8	.75	141.9

All data are based on sources believed to be reliable, but its accuracy is not guaranteed. Every effort will be made to correct errors, when discovered, in future issues.

Reporting period
3 mos.—First quarter of fiscal year
6 mos.—First six months of fiscal year
9 mos.—First nine months of fiscal year
Fiscal—Fiscal year
NEW—New report since last issue

Last 52 Weeks

General Field Footnotes
NA—Not available or not applicable
NC—Data required for calculation currently incomplete in our files
NE—Negative earnings invalidate calculations
NM—No meaningful figure
a—Under dividend amount, indicates a stock dividend
b—Indicates cash plus stock dividend when applied to dividend amount column

P/E Ratio—Price/earnings ratio
E.P.S.—Earnings per share

Market
N—New York Stock Exchange
A—American Stock Exchange
O—NASDAQ Over-the-Counter
M—NASDAQ National Market

*Two-week average volume equals the number of shares traded divided by the number of shares outstanding during the latest two-week period. Twelve-week average volume equals the number of shares traded divided by the number of shares outstanding over the previous 12 weeks.

All earnings data and all related calculations using earnings data use primary earnings from total operations and after taxes. Earnings are before extraordinary items, when such items are applicable.

Data and Table Provided by Media General Financial Services Inc., Richmond, Va. 23219

Coast to Coast Stores eyes joint venture with BMA

(Continued from page 1)

He said that the capital and increased cash flow from the public offering "will enable us to grow our business and position us for possible acquisitions and expansion into a truly national company."

As previously reported, the public offering, announced June 1 during the Coast to Coast fall/winter show here, will raise more than $25 million to be used to retire existing debt (*NHCN*, June 15).

CoastAmerica will be listed on the New York Stock Exchange by late June or early July under the ticker symbol "CAC." *(For further information about the financial implications of Coast's public offering, see page 53.)*

The largest franchisor of retail hardware stores in the U.S., CoastAmerica has nearly 1,000 hardware stores operating in 35 states.

Last year, the company moved about $285 million in goods through its three distribution centers, in Springfield, Ore.; Brookings, S.D.; and Crawfordsville, Ind.

At its show, Coast to Coast also announced plans to open a new company-owned-and-operated, 9,000-square-foot store in Denver on July 1 and as many as four other company-owned stores by the end of the summer here.

The stores probably will be converted to franchises, according to Anne Callison, public relations director. She said the company is negotiating leases "on as many as 18 sites."

John Tilley, vp-sales, said the new Denver store will be used to show potential franchisees the "inner workings of a Coast to Coast store and a portion of the building will be used as a training center for new store owners."

The new issue is being underwritten by Drexel Burnham Lambert, Donaldson, Lufkin & Jenrette and Denver-based Boettcher & Co.

"We are not creating value in the offering," he said. "The value already exists. Through the use of additional capital, however, I believe that we can create the best, fastest growing and most dynamic company in our industry."

The company's registration statement filed with the SEC said the offering is for 2.8 million shares of common stock to be offered at a price of between $9 and $11 per share. The over-allotment option is 420,000 additional shares which may be purchased by the underwriters.

Proceeds, estimated at $25 million to $28 million, will be used to reduce debt. On May 8, 1986, Bard and an investors group, The Vons Cos., paid $40.5 million for its shares of Coast to Coast.

Moreover, every existing store will be given, "for free, an option to buy 500 shares of CoastAmerica at the offering price." Stores may exercise these options two years from the offering date at the fixed, initial offering price. CoastAmerica is offering its stores 500,000 option shares.

Store owners' equity stake

In an *NHCN* interview, Bard said the decision to offer options to store owners was "a way of getting our stores to obtain a piece of the rock. It is reasonably inexpensive capital because we are going to grow the business and get an extra return on capital, so you can afford to give away shares."

NAHB chief becomes self-starter

(Continued from page 8)

creating a certification program for remodelers.

The program, begun in May, will be available in January 1989.

The program will concentrate on estimating and selling skills and on producing profitable remodeling jobs. "Most of our people are good remodelers but not good businessmen," said Moriarty.

It will probably consist of several modules with tests after each one. Ideally, classroom study will be conducted in cooperation with local universities.

The goal is to persuade the consumer to hire qualified remodelers and not "someone off the street with the lowest possible price," he said.

As the Council's chairman, Moriarty also is dedicated to completing such projects as the long-awaited warranty program, the catalog of services and quality standards of workmanship, currently in final revision.

The quality standards catalog will detail workmanship standards on projects like pouring concrete foundations.

National Home Center News (ISSN 0192-6772) is published biweekly, every other Monday, 26 times a year, beginning with the second Monday in January; by Lebhar-Friedman Inc., 425 Park Ave., New York, N.Y. 10022. Subscriptions are available at no charge to qualified retailers and wholesalers of lumber and building supplies and hardware. Paid subscriptions are available to nonqualifying retailers, manufacturers, other wholesalers, schools, libraries and all others at the rate of $45 per year (26 issues); $45 to Canada. Foreign subscription: Airmail only, $125 per year. Group rates are also available: (prices are per year), 1 to 4 copies, $45; 5 to 39, $41; 40 or more, $37. Single copy rate is $2 except first May issue (Annual Census) and first July issue (Consumer Attitude Study), $15 each.

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Vol. 13, No. 13 June 29, 1987

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* GMROI calculations based on proper installation of a 35-pocket cascade display.

Circle 69 on Reader Service Card

Mild weather, import restrictions lend to growing nail shortage

(Continued from page 1)

And right as it was going into its heaviest deck-sale season, the Builders Square in Evansville, Ind., was out of galvanized nails which have been back-ordered since April.

The problems began as far back as January, manufacturers and retailers reported, when deliveries of foreign-sourced galvanized and drywall nails started to slow. But as temperatures and building levels stayed high through late winter and early spring, domestic manufacturers missed their chance during what is usually a lull period to build their inventories for the coming months.

(U.S. Department of Commerce figures show offshore nails accounted for 49 percent of all nails sold last year and should account for 52 percent of nails sold this year.)

Demand is traditionally high for nails in the spring and summer, but this year many factors are contributing to the scarcity. Sustained home building activity, mild winter weather leading to a longer building season and import steel restrictions on foreign nail makers in 33 countries combined to cause lengthened waits for orders of commodity and specialty nails.

Prices on domestic nails, though, appear unaffected by this shortage, say suppliers.

It is unknown how widespread the shortage is, or how long it will last. Kansas distributor Blish-Mize waited four months for a 10,000-pound order of drywall nails from its main supplier, forcing their buyer to switch suppliers to fulfill retail orders.

Supply availability varied markedly for a number of major home center chains: the 253-unit Wickes Lumber experienced slowdowns in shipments, while the 185-store Payless Cashways reported no back-ordering. Co-op Hardware Wholesalers Inc. reported shortages on some sizes of roofing and common nails, with lead times on orders in May and June doubling to six to eight weeks.

However, medium-sized retailers contacted in Georgia, Illinois, Colorado, Minnesota and Wisconsin report no shortages and uncommonly brisk sales of nails.

The mild winter weather was a signal to manufacturers. "We saw [shortages] coming in February and March," said D.D. Tousley, vp of nail sales for Northwestern Steel and Wire in Sterling, Ill. Northwestern, which gets more than half its sales from home centers, had lead time delays of one to two weeks through April, since reduced to the normal two weeks order-to-ship time in May.

Charles Dixon, chairman of the nail producers committee of the American Wire Products Association, said the longer lead times were strictly a function of demand on the 39 domestic manufacturers.

"There's no shortage of capacity in the U.S.," said Dixon, president of Dixon Weatherproof Nails, an Evanston, Ill., manufacturer, "and no one is running flat out."

Home center operators record winning first-quarter figures

(Continued from page 5)

year or longer increased 22 percent at The Home Depot.

At Hechinger, same store volume increased nine percent, up from the eight percent in 1986. Same store sales increased six percent at Payless Cashways and 5.4 percent at Scotty's.

Oil patch store impact

Impacted by its oil patch stores, Lowe's reported only a one percent same store sales increase, down from the six percent of 1986.

The Home Depot reported earnings of $12.8 million on sales of $334.0 million for the first quarter.

Hechinger recorded a 53 percent jump in net earnings to $7.6 million, on sales of $164.8 million. Lowe's earnings increased 14 percent to $12.9 million on revenues of $569.1 million.

For its first quarter which ended in February, Payless Cashways recorded a 45.8 percent increase in earnings to $3.5 million on sales of $332.1 million.

David Stanley, chairman of Payless Cashways, speaking before security analysts in New York last month, indicated the company was doing better outside the oil patch.

Without oil patch stores, same store sales would have increased 12 percent for the quarter.

"We'll make money this year in the oil patch, but not as much as we used to," said Stanley.

Knox Lumber, which Payless acquired last year, is a different story.

Stanley said the St. Paul, Minn., chain made $6 million in pretax profit in 1986 and "will make significantly more money" in 1987.

Smaller-ticket items big

Many observers point to the fact that consumers spent their big-ticket purchases last year for automobiles. This year, they seem to be concentrating on the smaller-ticket purchases for remodeling.

And despite its same store sales reports, Lowe's has expressed confidence that 1987 will indeed turn out to be a good year.

"The only loose cannon out there now is Builders Square," said Bob Strickland, Lowe's chairman, speaking at the same meeting with Stanley. "You have to remember that Builders Square has the same initials I do. Some people think there is too much B.S. in this business."

Lowe's said that total sales are 12 percent ahead of last year and that this pace should continue through 1987.

It looks as though Ace Hardware, the Oak Brook, Ill., co-op, will experience bigger revenues increases in dollars for the first half of 1987 than for all of 1986.

For the first five months of this year, revenues have increased 14.3 percent. Last year, total revenues increase was 5.1 percent.

For the first 11 months of the fiscal year ended in June for Hardware Wholesalers Inc., sales came to $718 million, up 11.5 percent over the same period a year ago.

"I hope the rest of the year continues to be like the first five months," said executive vp Mike McClelland.

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7/14/87

National
Home Center News ®

Vol. 13, No. 14 $2 a copy The newspaper for retailers serving homeowners and contractors. Published by Lebhar-Friedman Inc. July 13, 1987

McCoy's new unit first outside Texas

By Suzanne Floyd
NHCN staff editor

SAN MARCOS, Texas — McCoy's Building Supply Centers opened its first home center outside Texas last month, a new unit in Pine Bluff, Ark.

The 79-store chain also opened two Texas locations in El Paso and Austin in May.

The stores are all new constructions and are similar to existing units in size, layout and merchandise, according to Vance Posey,

(Continued on page 108)

Dealers slash budgets, earnings rise

By Phillip M. Perry
NHCN staff editor

NATIONAL REPORT — Home centers have gone on a crash diet.

Spurred to action by 1986 results that came in under plan, retailers are cutting fat from operations and making assets more efficient.

In some cases, cost cutting—in tandem with a consumer spending binge and easing of shelf pricing pressures—has created some surprisingly healthy bottom lines.

Reports from the seven largest publicly held home center firms reveal that during the most recent quarter:

- Six cut overhead expenses as a percent of revenues;
- Four achieved better markup from merchandise on their shelves;
- Four experienced a decline in the tax rate.

Home Center Net Margins

Company	Net Margin 1Q 1987	Net margin 1Q 1986
Hechinger	4.49%	3.55%
The Home Depot	3.83	2.31
Lowe's	2.27	2.13
Payless Cashways	3.31	3.65
Scotty's[2]	2.25	3.22
Wickes	2.55	0.43

[1]Second quarter ending May 30.
[2]Third quarter ending March 28.
NHCN chart

Thanks to some operational cost cutting, some home centers experienced an earnings increase for the first quarter of this year.

The move by the larger companies echoes similar moves made previously by independents.

Harlan Hummel, executive vp of the National Lumber and Building Material Dealers Association (NLBMDA), Washington, said many of the 15,000 smaller retailers in his organization cut costs over the last two years, and now are reporting healthier net margins as a result.

Gross margins dropped last year for the $10 million Collins Cashways, Loveland, Colo., which responded by cutting many expense items. "We have toed the line in advertising, insurance and other areas," said Doug Frost, manager of the two-unit firm's

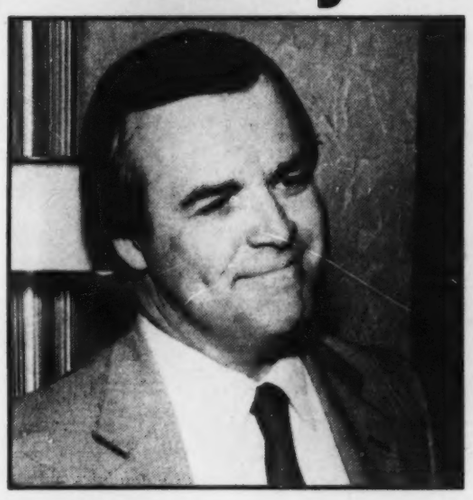
(Continued on page 107)

Westlake plans entry into Texas with former Handy Dan outlets

By Gary S. Ruderman
NHCN staff editor

LENEXA, Kan. — The privately held, 41-unit Westlake Ace Hardware here will make its first entry into the Texas market with at least four units through acquisition of Handy Dan locations from Wickes Cos., *NHCN* has learned.

Through a recently incorporated subsidiary, Westlake is expected to sublease Handy Dans in Amarillo, Odessa and Midland, Texas, and one Allwood unit in the state from Wickes. The California conglomerate purchased these units as part of its acquisition of W.R. Grace's western home center division last year. Financial details were unavailable.



Daryl Landsdale, a Lone Star Hardware principal. NHCN photo

The Handy Dan and Allwood stores were slated to take a physical inventory the first four days of July in contemplation of a mid-July closing.

In addition, the subsidiary is negotiating acquisition of

(Continued on page 108)

New co-op pushes marketing to builders

By John Caulfield
NHCN staff editor

PHILADELPHIA — Last year, Stanley Gomberg began noticing how hardware cooperatives such as Cotter & Co., Ace Hardware and American Hardware Supply were making a big push to expand their distribution of building materials.

Gomberg, who 20 years ago founded Materials Corporation of America (MATCO)—which currently is comprised of 25 commodities distributors with 40 warehouses serving around 14,000 dealer accounts and generating $400 million in sales annually—saw the competitive threat to his organization "because it erodes our natural dealer base."

(Continued on page 107)

New England boom times leave Plywood Ranch behind

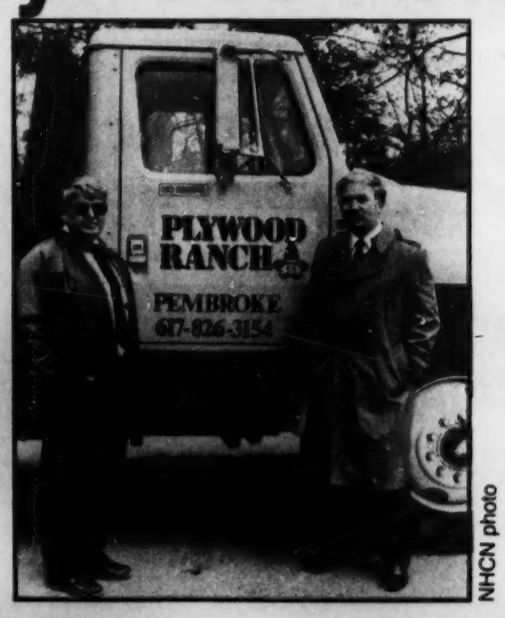
Mass. chain files Ch. 11

By Milford Prewitt
NHCN staff editor

AUBURN, Mass. — Plywood Ranch, the long-struggling New England home center chain, has filed for Chapter 11 protection from its creditors just days after three suppliers attempted to impose involuntary liquidation proceedings on the chain.

The company's setback comes at a time when a new

Plywood Ranch's R. Lee Tussing, vp of marketing (left), and Edward Ferland, vp of operations and merchandising (right). Management is paring down the size of the chain from 10 units to 4.



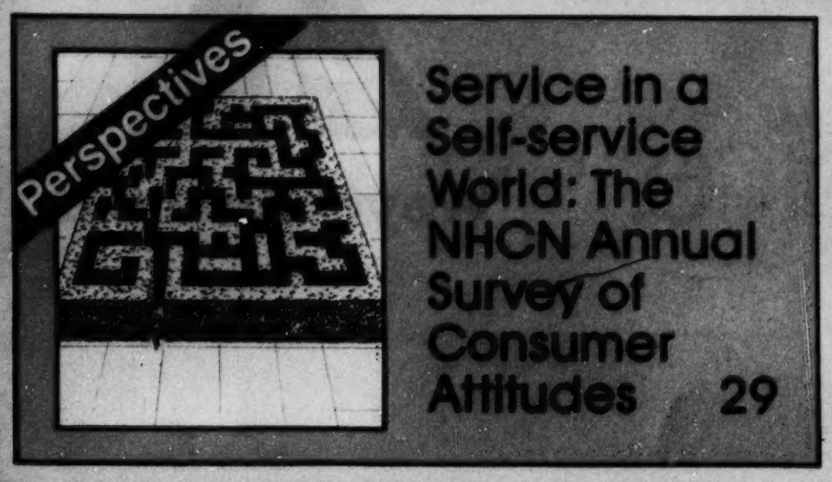
NHCN photo

and creative owner-management team was putting together a program to improve the ailing chain's fortunes.

But the plan to turn the company around seems to pale in light of a number of store closings over the past 2½ months, dropping Plywood Ranch's store count from a high of 10 in January to six (including two franchised units) at the end of June. During the early 1980s, Plywood Ranch operated as many as 30 stores in six New England states,

(Continued on page 108)

INSIDE



Service in a Self-service World: The NHCN Annual Survey of Consumer Attitudes 29

NEWSBREAKS

WESTERN LUMBER EXPANDS: The San Diego chain will buy four ex-Lumber Ones. These and its own seven units will be renamed "Western Lumber," and drop "Westy's."

FLA. INVESTOR SWEETENS PAY 'N PAK BID: Paul Bilzerian offered $17 in cash and $5 in preferred stock for the chain's common shares, plus another 50 cents in preferred if the chain revoked an agreement to pay a cancellation fee to a management-led group whose takeover bid was accepted last month.

INDUSTRY UPDATE

Home Lumber files for Ch. 7

ALAMOSA, Colo. — The Home Lumber Co., which operated three home centers in the southern Colorado towns of Alamosa, Monte Vista and South Fork with combined sales of about $3 million annually, has filed for Chapter 7 bankruptcy, according to vp-general buyer Bob Graham.

Graham said the four-year-old company couldn't meet its credit obligations and was "hard-hit by the economy" in the region located near the New Mexico border. Chapter 7 of the U.S. Bankruptcy Code is for liquidation of assets.

Toolathon opens 2 franchises

TOTOWA, N.J. — Toolathon, the specialty tool chain, will open its first two franchise operations in Bricktown, N.J., and Bensalem, Pa., a suburb of Philadelphia shortly. The six-unit company hopes to have entered into 10 franchise agreements by year end, according to Ken Kwit, president.

"Franchising will allow us to expand rapidly, have the combined buying power of a multiple store operation and coordinate advertising," said Kwit. "We are already attracting a wide range of interested parties, and have had response from outside the Northeast too."

By franchising its operation, Toolathon will be able to widen its reach from its northern New Jersey origins into the entire Northeast area.

Toolathon is offering franchises at a cost of $250,000 including inventory worth $170,000. Stores average 3,000 square feet and are located in high-traffic shopping centers.

San Diego County indy debuts

RANCHO PENASQUITOS, Calif.— Dick Hallett, who in 1985 sold his interest in the two-unit Build & Grow in Orange County, has opened a home center in this San Diego County community.

The new facility, consisting of a 10,000-square-foot showroom, 3,000-square-foot covered area and 12,000-square-foot outside yard, debuted in May.

Hallett's partner in the venture is Bob Serr, who owns several rental equipment businesses in San Diego County. About 6,000 square feet of the outside yard is devoted to rental equipment for both construction projects and parties, Hallett said.

The original Irvine, Calif.-based Build & Grow business was merged with Crown Hardware in 1986.

Fla. ad tax challenged

TALLAHASSEE, Fla. — The constitutionality of the recently passed five percent service tax here was debated in the state Supreme Court June 22.

During oral arguments, attorneys for newspaper publishers and broadcasters said the tax on advertising impairs free speech.

The law, which adds a five percent tax on national and local advertising, public relations, accounting, legal and other services, would affect Florida home centers and manufacturers who place national advertising in the state.

The Miami Herald reported that the court would not issue a decision until after the law takes effect July 1.

Governor Robert Martinez requested an advisory opinion from the court on May 12 after approval of the tax resulted in the filing of several challenges in the Leon County Circuit Court.

The law is being challenged on both state and federal levels, but the opinion would be used by Florida's lower courts to address state matters only.

According to the *Herald*, the justices said their goal is to rule before summer recess begins July 20.

Home center stocks soar

NEW YORK — Home centers had a lot to cheer about in the stock market for the two weeks ended June 26.

Of the stocks tracked for *NHCN* by Media General, 37 rose in price and 19 dropped. Two stocks remained unchanged.

Payless Cashways rose faster than any other retailer, increasing by 10.5 percent to $23.75.

Moore Handley rose 9.7 percent to $8.50, and Standard Brands Paint rose 3.8 percent to $23.63.

See financial tables, page 103.

For editorial, advertising or subscription information call NHCN's main offices at:

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Available for calls 9-5:30 (E.S.T.)

Georgia-Pacific purchases U.S. Plywood stock for $215M

By an NHCN staff editor

ATLANTA — Attracted to U.S. Plywood's industrial products line, Georgia-Pacific has purchased all of the outstanding stock of U.S. Plywood for approximately $215 million.

Gail Smith, G-P spokesperson, said there will be few changes in the offing for U.S. Plywood, noting that the giant forest products and building materials producer expects to operate the new acquisition as a wholly owned subsidiary.

"It's a good fit with what we have currently," Smith said. "They have a great niche in the industrial products market and that's something we've been looking at."

Like its new parent, U.S. Plywood manufactures and distributes a broad array of wood products. In addition to industrial particleboard for the furniture industry, U.S. Plywood produces or distributes plywood, hardboard siding, prefinished interior paneling and waferboard structural panels. Much of the product lines of the two companies overlap, particularly in the structural panel and prefinished categories.

In addition to the product mix, G-P will further its strong distribution profile by acquiring U.S. Plywood's 44 distribution centers, giving G-P more than 180 distribution facilities nationwide, more than three times the 60 DCs operated by Weyerhaeuser its largest competitor.

Of the $7.2 billion G-P made in total net sales last year, $4.8 billion was derived from its distribution system.

U.S. Plywood had sales in 1986 of $944 million. It was formed about two years ago when it spun off from Champion International in a senior management-led leveraged buyout.

U.S. Plywood's executive vp Jack Armstrong, who led the takeover, declined to discuss the acquisition and referred all inquiries to Atlanta.

Deteriorating sales, Texas recession push Davidson to file for Chapter 11

By an NHCN staff editor

HOUSTON — Davidson Texas, a well-known prehung door, molding and window wholesaler/manufacturer in Texas, has filed Chapter 11 after three years of consecutive sales erosion.

John Barton, the ceo who was brought aboard in April to lead the company out of its current difficulties, said the 87-year-old distributor sought protection from its creditors in bankruptcy court June 12.

Barton declined to outline its financial posture, except to blame "110 percent" of Davidson's misfortunes on the continued Texas recession.

"We just found ourselves in a position where our costs exceeded our income and in order to survive we had to seek protection," Barton said.

NHCN was unable to obtain Davidson's filing documents from the Federal Bankruptcy Court in Houston by presstime.

Barton said that the company had enjoyed sales as high as $53 million in operating three distribution and production plants in San Antonio, Houston and Austin. But with the recession in oil and real estate, the softness of the Texas economy reached the company and reduced 1986 sales to $22 million.

Davidson derived 85 percent of its volume from building materials delivered directly to contractor job sites.

The balance of the company's services was directed to lumberyards in outlining Texas communities.

"Just here in Houston, we've gone from a high of 60,000 housing starts to a little over 6,000 and that made a big dent in our business," he said. "We're off 50 to 60 percent from what was our heyday in 1984."

Barton's remedy for improving the company's health includes a number of changes in its operations and marketing strategies.

He said the company is aggressively pursuing bids on multifamily construction sites in areas outside of Texas and has already scored with commitments in New Jersey, Florida and Phoenix.

New installation services

Besides making the usual consolidations and cutback in payroll, Barton said the firm will also expand its installation services to include security hardware and, in some cases, bathroom hardware.

He said the company is also gearing up to service retailers who cater to DIYers.

Creditors and the banks who have been acquainted with Davidson's plans are encouraged by the company's resolve to improve its health, Barton said. They reportedly haven't presented any obstacles to the company reorganization plan.

Padco awarded $3M in patent suit

By an NHCN staff editor

MILWAUKEE — U.S. District Court here has awarded Padco, the paint applicator manufacturer, more than $3 million in damages, and has enjoined the EZ Paintr division of Newell Cos. to stop selling a roller product deemed by a jury to be infringing on a patent held by Padco.

On June 12, Judge Robert W. Warren ordered that EZ Paintr, also based in Milwaukee, and Newell, named as a codefendant, halt the sale of a splatter-shield paint roller product it introduced in 1985 that was found to infringe on Padco's patent for a splatter shield roller it brought out in 1979.

The trial lasted three weeks and the jury found against EZ Paintr, awarding $910,000 in damages. Judge Warren exercised his option to triple the damages—basing his decision on the jury's verdict that the infringement was willful—and awarded Padco $2.73 million.

He also granted a number of other payments—such as attorneys' fees and $92,996 in prejudgment interest—that will bring the total judgement to over $3 million.

A spokesman for EZ Paintr told *NHCN* that the company would decline to comment about the order because it was "currently in the hands of our attorneys and in the appeal process." The deadline for an appeal filing was scheduled for July 12.

Edward Goldstein, a vice president for Padco, said that dealers marketing EZ Paintr's splatter shield rollers would be allowed to sell out existing inventories, but would be getting no more stock.

He also mentioned that this was not the first time the two companies had locked horns in litigation. In 1985 Padco sued EZ Paintr for infringing on a patent it held on a textured paint roller. The case was settled out of court.

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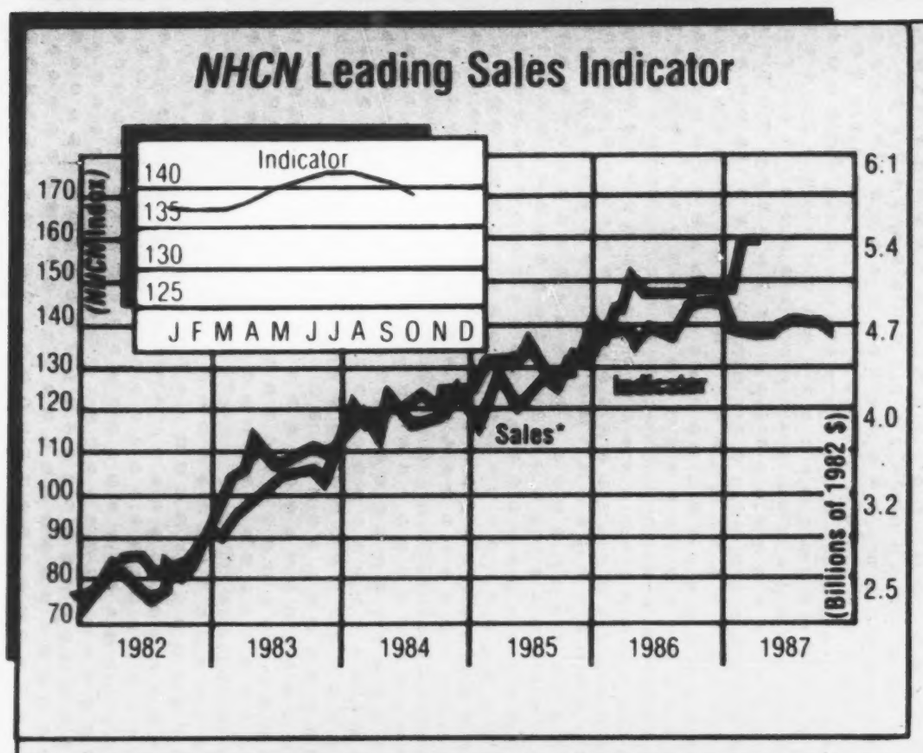
BUSINESS WATCH



*—Monthly retail trade building materials, hardware and supplies in (1982 $).

Indicator—represents an estimate of future building material retail sales (adjusted for inflation) relative to Jan. 1980, based on current levels of housing starts and resales, personal income, interest rates and related data.

The NHCN Leading Indicator is projecting a flattening in building material sales during the second half of 1987. Resales remained strong in the first quarter, but the rise in mortgage rates suggests lower starts and resales ahead.

Building material sales to rise faster than economy into 1990s

By Richard E. Mount
Special to NHCN

Building material sales will rise faster than the overall economy and most types of consumer spending into the 1990s. Following the 7.5 percent rise in unit volume expected for 1987, sales should increase three percent in 1988 and four percent for both 1989 and 1990.

Economic Underpinnings

The current economic expansion is now the second longest of the post-World War II era and is still headed for further gains.

The problems that usually develop at this stage of a recovery, which signal a pending contraction, are missing.

Richard E. Mount

Inflation remains tame in spite of the firming in energy prices. While the Consumer Price Index is up from a year ago, it remains near its pace of 1985. Capacity utilization rates in manufacturing plants are low enough that plant bottlenecks are rare and labor shortages are not widespread.

The three major problems facing the economy are federal debt, consumer debt and foreign debt. The federal deficit increases $170 billion annually, but it is coming down from its prior $200 billion pace and each year it represents a smaller portion of the total economy. Until it falls sharply, real interest rates will remain high.

(Continued on page 17)

Richard E. Mount is senior economist and manager of housing and construction material research for Merrill Lynch Economics.

General Business Conditions

		1985	1986				1987			1985	1986	1987
		QIV	QI	QII	QIII	QIV	QI	QII	QIII			
***NHCN* Leading Sales Indicator** (January 1980 = 100)		124.7	127.9	132.1	137.1	138.6	140.2	141.8	140.6	118.5	130.4	140.3
General Economic Outlook												
	GNP $1982 Billion	3,655.9	3,661.4	3,686.4	3,696.1	3,735.9	3,742.6	3,760.2	3,780.4	3,585.2	3,675.0	3,754.8
	Real Disposable Income $1982 Bil.	2,581.2	2,625.8	2,605.5	2,595.4	2,612.0	2,602.4	2,642.3	2,657.4	2,528.0	2,602.0	2,628.5
	Housing Permits (000 SAAR)	1,834	1,822	1,678	1,695	1,695	1,575	1,550	1,575	1,733	1,762	1,599
	Housing Starts (000 SAAR)	1,938	1,878	1,758	1,702	1,795	1,620	1,600	1,600	1,742	1,806	1,654
	New Home Sales (000 SAAR)	791	794	685	712	725	675	670	675	688	749	686
	Resales (000 SAAR)	3,256	3,470	3,615	3,927	3,625	3,450	3,425	3,425	3,214	3,565	3,481
	Prime Rate %	9.4	8.6	7.9	7.5	7.5	8.1	8.5	8.5	9.9	8.4	8.2
	Mortgage Rate % (HUD)	10.8	10.1	10.2	9.7	9.1	10.3	10.4	10.4	12.5	10.2	10.1
	Consumer Price Index (1967 = 100)	327.7	326.3	328.4	330.7	335.0	339.3	343.4	347.5	322.1	328.3	341.3
	Producer Price Index (1967 = 100)	292.1	288.5	288.2	290.2	292.6	299.8	303.2	307.3	293.8	289.8	300.7
	New Housing Affordability 1980-100)	128.6	129.4	126.1	128.9	129.2	127.3	119.3	118.8	117.6	128.3	123.7
Residential Alterations and Repairs												
Current	Total $ millions SAAR	91,800	83,300	104,400	86,700	89,885	92,119	94,744	97,841	80,267	91,416	93,647
	Maintenance and Repair	37,700	29,800	40,600	36,300	37,570	38,288	39,094	39,834	35,358	35,990	38,697
	Additions and Alterations	33,900	39,600	44,700	35,400	35,386	36,236	37,601	39,159	28,775	38,662	37,096
	Major Replacements	20,200	13,900	15,000	19,100	16,929	17,594	18,049	18,848	16,134	16,766	17,855
Constant	Total Millions $1982 SAAR	83,655	74,114	96,100	83,969	82,300	83,510	85,040	86,950	74,614	84,459	84,450
	Maintenance and Repair	34,355	26,514	38,900	33,569	34,400	34,710	35,090	35,400	32,864	33,334	34,900
	Additions and Alterations	30,892	35,233	42,828	32,737	32,400	32,850	33,750	34,800	26,791	35,423	33,450
	Major Replacements	18,408	12,367	14,372	17,663	15,500	15,950	16,200	16,750	15,180	15,702	16,100
Retail Trade Activity												
Current	Total $ millions SAAR	1,414,624	1,431,108	1,486,596	1,485,648	1,472,336	1,511,155	1,534,076	1,553,925	1,379,621	1,445,875	1,517,873
	Total Minus Automobile	1,104,376	1,109,508	1,122,908	1,133,900	1,157,804	1,166,438	1,188,030	1,202,138	1,067,762	1,117,943	1,178,602
	Building Material, Hardware, Garden Supply, Mobile Home	86,136	87,528	88,884	89,488	91,328	94,627	96,917	97,384	75,556	88,009	95,064
	Building Material and Supply	63,708	64,396	62,956	64,584	68,720	71,018	72,836	74,068	55,695	65,529	71,661
	Hardware	10,500	10,884	11,832	11,748	12,204	12,466	12,668	12,828	10,397	10,700	12,542
Constant	Total Millions $1982 SAAR	1,315,572	1,347,130	1,387,454	1,375,074	1,346,187	1,368,000	1,375,000	1,379,000	1,287,616	1,356,308	1,367,047
	Total Minus Automobile	1,035,810	1,059,027	1,064,042	1,066,022	1,070,696	1,068,000	1,077,000	1,079,000	1,003,247	1,056,225	1,073,674
	Building Material, Hardware, Garden Supply, Mobile Home	80,855	84,482	84,599	83,399	84,352	86,534	87,750	87,300	71,575	83,334	86,484
	Building Material and Supply	59,791	62,149	59,924	60,188	63,469	64,750	65,750	66,200	52,705	60,513	65,042
	Hardware	9,857	10,508	11,262	10,949	11,272	11,400	11,470	11,500	9,860	10,644	11,411
	Building Materials % of Total Less Automobile ($Current)	5.77	5.80	5.61	5.70	5.94	6.09	6.13		5.22	5.86	6.08

Data: Department of Commerce
Bureau of Labor Statistics
National Association of Realtors
Department of Housing and Urban Development
June 26, 1987

The Home Center Industry Outlook runs in two parts, in alternate issues. The first part includes latest data on the General Economic Outlook; Residential Alterations & Repairs; and Retail Trade Activity. The second part includes latest data on regional building material & supply store sales; and industrial production. The *NHCN* Leading Indicator runs every issue.

SAAR—Seasonally Adjusted Annual Rate
p—projection
NHCN chart
Source: Merrill Lynch Economics for *NHCN*

Sales will rise faster than economy into 1990s

(Continued from page 16)

The rise in consumer debt has been concentrated in the auto sector, but the slowdown in auto sales—that has already begun—combined with an expanding economy will correct this situation gradually.

Foreign debt problems will be addressed on a bank-by-bank basis with the Federal Reserve stepping in as a last resort.

On the positive side, many sectors that have been weak over the past year are correcting themselves and will add support to the economy over the next few years.

Starts should rebound

The contraction in housing starts since early 1986 is concentrated in the overbuilt multiunit sector. But vacancy rates in these units have stabilized, suggesting a rebound in starts by 1988. The drop in energy prices is past and domestic mining for oil, gas and coal will increase with higher prices and low drilling costs.

Manufacturing output and investment in business equipment have been restrained for most of the recovery because of the high dollar. With the dollar down about 40 percent since early 1985, industrial output is showing some strength.

As fears of the new tax law subside and operating rates increase, investment in new machinery will increase.

Under these conditions, the economy will slowly rise over the next few years as there are not enough major internal or external imbalances to cause a downturn.

Positives for housing

Housing will be strong through 1990. The last of the postwar baby boom is becoming first-time home buyers, good for resales and smaller new homes, in particular. Mortgage rate changes will be small during this time because of moderate inflation, maintaining the current levels of housing affordability.

Outlook for sales

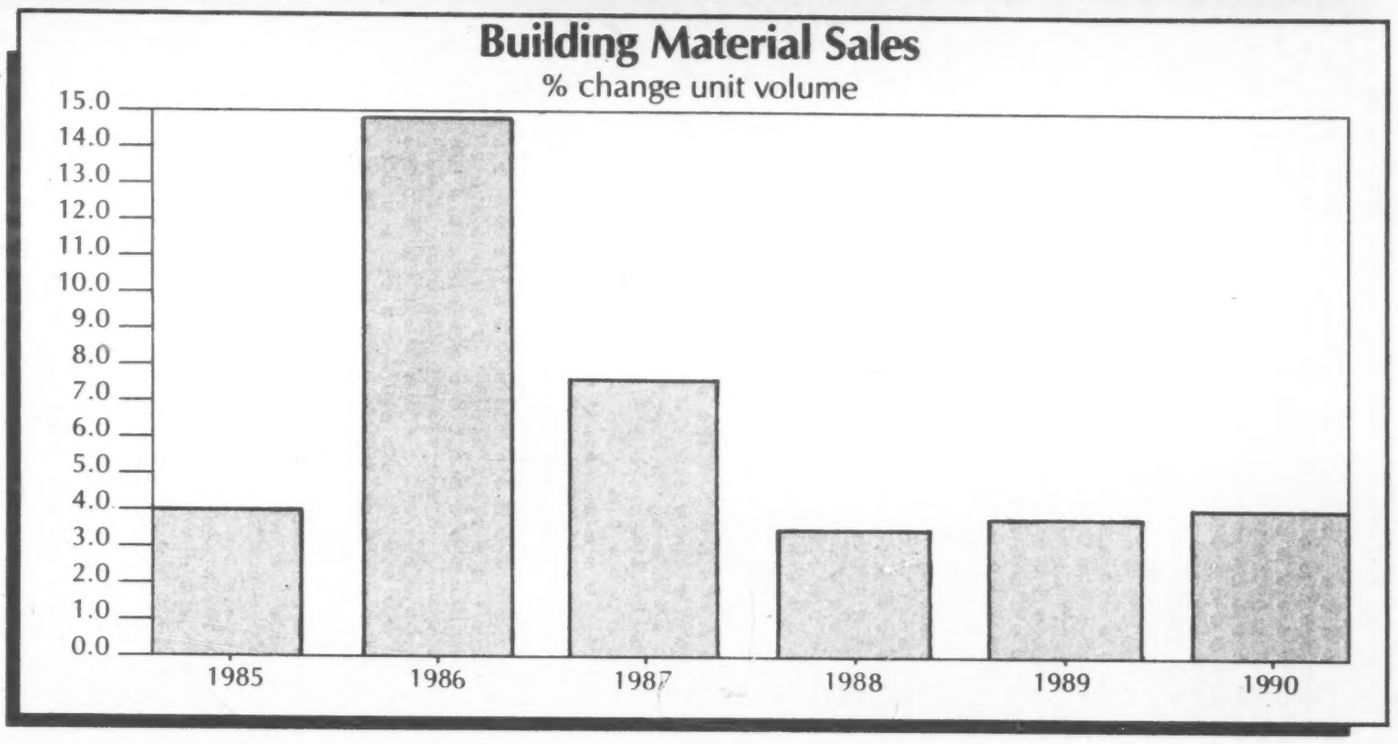
Building materials will be one of the stronger categories of retail sales in coming years.

In addition to the overall economic and housing climate, building material retail sales will get support from population and the new tax law. The average age of the population is rising and older individuals prefer DIY projects.

Good experience with small jobs increases both confidence and the willingness to tackle larger ones in the future. The new tax law favors home improvements over other types of consumer spending. While most areas of consumer borrowings are no longer tax deductible, home improvement loans are.

Sales of building materials should rise .11 percent this year, 7.5 percent after inflation, propelled by the sharp jump in resales in the second half of 1986.

But mortgage rates rose in April and May, pressuring housing starts and resales in the spring and probably through the summer. This will soften the gain in building material sales in 1988 to three percent after inflation. With the economy gaining momentum in 1988 through 1990 as various sectors improve, employment, housing starts and resales will rise, increasing building material sales four percent annually in 1989 and 1990.



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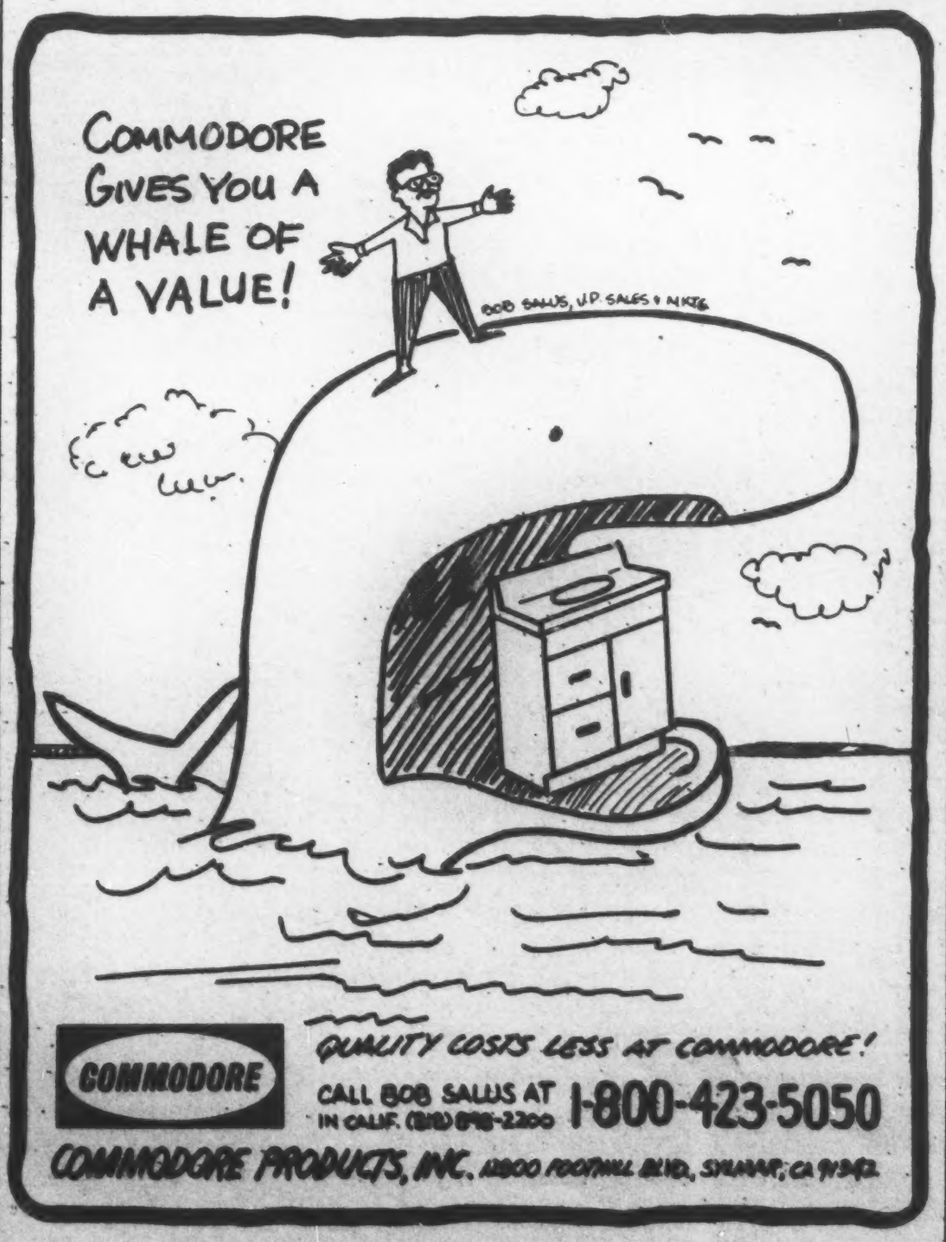
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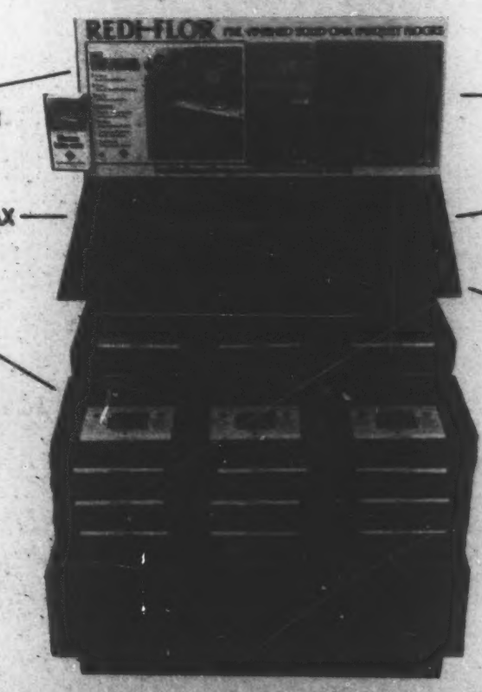
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